

# Aygaz liquefied petroleum gas



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## **Introduction**

Aygaz was founded in 1961 as the first and the largest Koç Group Company in the Turkey energy sector. The main purpose of the company is to deliver the superior products and provide the perfect services to the customer all the time. Since 1961 the company has continued to be the leader in the domestic Liquefied Petroleum Gas (LPG) sector as it continues to operate in the sourcing, storage, filling, and distribution of LPG. The company's most significant undertaking in its first years of operation was the heating of the oven of Ereğli Iron and Steel Plants with LPG in 1963. In order to heat this gigantic facility that was valued around TL 2 billions, LPG was transported from Yarımca to Ereğli with eight special tanker trucks. Following to these years the company begins set up its existence in the domestic LPG sector with introducing fresh products and services that did not existed in the market before.

Nowadays, Aygaz is protected the notion of being the best company in Turkey LPG sector and they still gives an importance to investments of the company as Aygaz realized the significance of investments for corporations.

## **Vision and Mission of the Company**

Aygaz as the leader Liquefied Petroleum Gas (LPG) Company in Turkey, have the vision of attaining the goal of being the leading and most reliable LPG-related service provider in Europe through carrying its high quality products and services to foreign markets like its domestic market. The company also has main missions and objectives. These missions and objectives are supplying high quality LPG, using all the resources effectively, providing after selling services, work in a respectful manner to society and environment,

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increasing Auto LPG market share to 30%, achieving higher volumes in wholesale business, consider satisfaction of the customers, employees and partners, maintaining market leadership with annual sales volume of 1, 250, 000 tons, improving technology on a continuous basis, improving market share in eastern part of Turkey, and stocking, distributing, selling.

### **External Analysis of the Company**

#### **PESTEL:**

Environmental factors are changing day by day so these situations have the different effect of the markets and organization of the company. Thus, PESTEL Analysis is helpful tool to analyze the macro environment of the company because it focuses on the dominant macro environment factors such as economical, technological, environmental, legal, political and socio cultural factors.

#### **Politics**

When look at the political factors, firstly, it can be mentioned about the government stability. Political environment of Turkey is not stable; any external or internal obstacles can change it easily. That is, most of the time, our country's political system has been in an alternating political environment. To be able to overcome this difficulties, government make some attempt to reach and keep the stability. One of these attempts is taking step to enter EU, however, it cannot be said that political stability has been performed adequately.

As mentioned above, political decisions affect the economy, for instance; agricultural sector or commercial sector is influenced from any changing of the political decisions. In overcoming of Turkey commercial problems,

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government should supplied more effective solutions for financing of the company when they encounter complications in the wake of economic problems. Also, another important sector, which is affected by the changing political conditions, is energy sector. Energy sector is so important element in economy since it can be called as a one of the biggest dynamic among the economic dynamics. For this reason, political decisions and political environment play very important role for energy companies to maintain their activities in a good way. To overcome problems of energy of Turkey, it should be utilized the rich domestic resources efficiently and it has to be generated solutions to finance energy sector.

Although bureaucracy is a big and struggle problem in Turkey, it is a problem in foreign markets, as well. Aygaz made some investment in foreign markets. For example; they merge with one of the Ukraine energy company under the name of Aygaz Ukraine LLC Company. However, ukraine was under the suzerainty of United Soviet Sosialist Republics, so this situation still reason for encountering severe bureaucratic difficulties. Another investment of Aygaz A. Ş. which is made in Bulgaria. However, in this investment, they encounter severe bureaucratically pressures. Thus, to be qualified in international market, the strategy of bureaucracy is so important. . in that point Aygaz which is a LPG producer, tries to be leading and most reliable service in terms of its services and high quality products. As a result, bureaucracy is a huge important factor for Aygaz A. Ş. to carry out their strategy with a high quality product in Europe.

**Economical**

As mentioned above, Aygaz is the market leader in energy sector in Turkey. Although Turkey have a great facility to encounter economic crisis in everyday with the changing economic condition, being a leader in the market provides Aygaz to overcome with economical difficulties. In Turkey, understanding from the 2001 crisis, there are big illegal usage of energy resources so this situation lead to face high tax rate. Although there is no changing in LPG production in 2004, total energy consumption increased such as consumption is nearly 3. 6 millions tons in 2003, this number increase nearly 3. 8 millions tons in 2004. due to raising the import rate of LPG. As a result of increasing import rate met the huge demand of the LPG demand of the companies. The share of the Aygaz among the other private company is 41%. In 2004, Aygaz purchased the TÜPRAŞ with paying 1. 3 million dollar. So understanding from above information, it can be said that Aygaz has the best one among the other Koç Holding's company in terms of having huge amount of economic power.

**Socio-Cultural**

Aygaz was established in 1961 and it is the leader of the LPG energy sector among the other companies of Koç Holding so it can be said that Aygaz is the biggest one. They set down this biggest success to be able to adapt the changing environmental condition quickly. Showing this interest to the society and environment, Aygaz build up so many educational activities and social campaigns. For example; they celebrated anniversary of 45th with establishing the 81 different vaccine room in 81 different cities. By this project of social responsibility, they took the award of “ EN BAŞARILI KOÇLULAR” another social responsibility project of Aygaz is Müşteri <https://assignbuster.com/aygaz-liquefied-petroleum-gas/>

Mutluluğu Yaratanlar (Beyaz Yaka). They define themselves as a volunteer of social responsibility with their project.

### **Technological**

Recently, environmental pollution is increasing unbelievably so energy consumption is rising because of developing technology and population. This situation is lead to most of the energy companies to find new and cleaner energy sources. And also Aygaz try to find new renewable energy sources to help environment. Therefore; they started to some projects like changing industrial Automation

### **Environmental**

Aygaz have some aim as a mission and vision. One of them is that minimizing the bad environmental factors. Another of them is, while making a new investment; they take into account if they make such an investment, how much it affect the environment. Also, they try to minimize the waste reduction and recycling to decrease the negative effect of energy consumption. Furthermore, they try to ensure the preservation of the global resources.

### **Legal**

Since several years, Turkey's energy market's legislative framework has been shifting too fast. At the same time, there are some inaccuracies in the performance of the market, such as the price trends and loss rates, the effectiveness of regulation. In addition to this, although the technical arrangements that were made for the network connection between Turkey and Europe are progressing well, there are still some regulatory limitations

on cross-border trading. Even so, if the offered amendments like the privatization of electricity generation are fully performed and cross border trade is liberalized; Turkey soon might be joined into the EU's energy system even in the step of full membership. In 2007, there were making some legal arrangement about the LPG law so by that way some regulations were applied on LPG such as LPG Storage License, LPG Tube control and Production License, LPG Auto gas Subsidiary License LPG Distribution License, LPG Transportation License, and LPG Storage License.

### **Porter's 5 Forces**

Porter's Five Forces helps the clarified the attractiveness of industry in terms of competitive forces. Analyzing the industry structure with the five forces framework is the value for most organizations. Also it helps to identify the sources of competition in industry or sector. Furthermore, it helps the manager to better understand the industry where the firms are.

### **Competition**

It can be said that Aygaz is the biggest company of the Koç Holding based on its operations. They meet the quiet demand of Turkey. It was established in 1961 and since its establishment, it is the leader of the energy industry in Turkey especially in LPG sector. They try to be best one in the sector with their operations which are sourcing, distribution and marketing of LPG, LPG storage tanks, mobile heaters, production of cylinders, and valves and so on. Aygaz work with 1. 500 dealers in 81 cities. They compete with 57 other LPG companies with having to 28. 7% market of the LPG. In 2003, their target was that expanding the market share by exporting the LPG to foreign country. They exported 67. 3 million Euros worth of LPG. Besides 67. 3

million exporting revenue, they increase their revenue with their other exporting operations such as exporting the LPG tanks, valves, and heating equipment. Thus, they get nearly 80.5 million Euros with these exporting activities. Moreover, it can be said that they get their bulk of the exporting revenue from sales to Iraq. While they make such an exporting, their competition strategy based on zero error, zero work accident, zero loss and enabling the production flexibility with the cost advantage

### **Buyers**

Aygaz has several types of buyers, including households, private companies

### **Suppliers**

Aygaz import big amounts of LPG from Algeria and Russia. They purchase nearly worth of 1 million Euro LPG during last three years. By this way, they preserve their leadership in the market. Also, they buy LPG from domestic sources to meet demand..

### **Potential entrants**

Recently, some foreign companies want to get profit from the energy industry in Turkey. Thus, they lay out to enter LPG sector. As an example, Shell can be given as a potential entrants in the LPG sector because last three years they have intend to enter the LPG industry. Increasing the number of competitors make the market more competitive and some times this situation threat the existing companies. However, Aygaz has not any threat from this situation because they are a big brand in the market.



**Substitutes**

When we look at the energy sector, there are lots of potential substitutes in energy sector. For example; Shell Gas, Güvenal Gaz , Milan Gaz, Total gaz, İpragaz and Likitgaz are the strong potential substitutes in energy sector.

As a result, according to PESTEL and Five Forces Analysis, realizing that political stability is an important factor both companies and customer' behavior. as we know Purchasing power of People can change depends on economic situation. Besides this, companies are affected subject to purchasing power of people and also their import and export activities are affected by changing economic conditions. Therefore, we can say that any economic fluctuations have directly influenced the activities of companies. Also variation of exchange rate affects the many companies negatively. Therefore, as mentioned above, Aygaz has many operations both Turkey and foreign countries so economic stability is an important factor for their organizations.

In conjunction with economic factors, environmental factors are another key factor for business. Usage of energy sources has directly affected the environment. Main reason of the Environmental pollutions is that unconsciousness usage of energy resources. Reason of unconsciousness usage of energy sources cause to both environmental pollution and scarcity of energy sources. Thus, Aygaz take into accounts this situation and they give the importance to find renewable sources to maintain the leadership in the sector.

Last ten decades, technology is developing unbelievably so companies carry on their activities with the developing technology. It is the key point that, how they derive benefit from usage of new technology. In accordance with using technology, companies may predict the possible future shortage of energy source and maybe they take measure to prevent scarcity of energy resources. In this respect, technology is so important for Aygaz to continue their leadership position in the market.

To conclude, Aygaz encounter some problems such as imitation of their products while they maintain their strong leadership in the sector. Some contract manufacturer filled the tubes illegally and sells those products under the name of Aygaz. Thus, this situation gives the considerable loss to the brand name of Aygaz. Nevertheless, Aygaz carry on their activities with regular monitoring of the market so they can overcome this problem without difficulty.

### **Internal Analysis of the Company**

The previous analyses built a way as gives a chance to improving the identification of the factors in order to go further with the appraisal of company's competitive strategy and its standing in the market . So it can be said that current success of the company would depend on whether Aygaz has capability to answer the external environment needs with its

That is, the current success along with the prospects would rely on how well Aygaz has matched the external environment requirements with its corporate strategy's, which based on internal setting for its products.

## **SWOT ANALYSES OF THE COMPANY**

The assessment process of a company's strengths, weaknesses, its external opportunities and threats is known as a SWOT analysis that provides an overview of overall situation of the company. The main principle underlies the usage of this analysis is not only provide a useful comparison between company's capabilities and market opportunities but also to expose the view of important deficiencies and to defend company against external threats.

The SWOT analysis for Aygaz is revealed as the following results;

### **Strengths of Aygaz**

Aygaz increases its strength among competitors according to its brand awareness and selected brand name. The company has created an image of the brand Aygaz as a provider of superior quality and better services to the customer as most people consider these features, as the first line of requirements of companies that would satisfy their basic and most important needs. According to company's brand name it can be said that Aygaz has competitive asset, which come from its strong brand name.

The other strength for is that company has a wide international scope which enable them to exports their products to many countries as well as form many selling points in some countries like Jordan, Iraq, Germany and England. By this way the company forms another competitive asset, which enables them to realize better return on investment so provide better financial standing in the market. Moreover, it can be said that globalization efforts make ready Aygaz for its objective of compete globally for enlarging its brand awareness across border. Furthermore, secondary LPG brand

names Mogaz and Lipetgaz provide power to Aygaz among competitive environment.

Finally, as Aygaz has a wide distribution channel this create exclusive selling points for the company's products and enables firm to create advertisement all around Turkey and also make possible to attain the goal of reaching more potential customer with lower costs. In Turkey Largest LPG distribution network include 15, 000 Employees (Aygaz + Dealers), 800 Autogas Stations, 300 Tanker Trucks, 2, 300 Cylinder LPG Dealers and 5, 000 Service and Transportation Trucks. In addition to, it can be said that the convincing strong and safety image of Aygaz and customer confidence and trusts creates a huge advantage for the company.

### **Weaknesses of Aygaz**

While Aygaz aim is to be leader of the LPG services, which gives most trustworthy LPG-related offerings in the global area, the company has weak natured marketing strategy in accordance with its advertising and promotion strategies in Turkey as well as in international competitive environment. Furthermore, since the distribution expense, stocking expense, holding expense are costly this will lead to increasing in the production cost of company.

### **Opportunities**

As the technology improved day by day this enable firms, like the example of Aygaz, to improve their production capabilities, which give a chance to produce global brand, that carry out supplemental revenue as well as create global extend according to intensified degree of brand awareness in the worldwide.

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Moreover, nowadays as companies trying to improve quality of existent products as well as new products they try to offer safety, healthy and more reliable products to attract and take consideration of customers. So this make possible to expand product suggestion and improved products. So in the case of Aygaz this let them to take advantage of their capacity more efficiently. Beside these, further growth of complicated products depends on welfare of the Turkey. So the output growth drives to advanced increase in incomes, which lead to increase in consumption as well as higher standard of living and create value and quality and attract customer when the companies, like the example of Aygaz, satisfy the necessity on time.

### **Threats**

The most important threat that Aygaz would face is the state of is economic changeability that would be dangerous when the company makes huge inventories. Despite the fact that, nowadays Turkey has a stable macroeconomic environment Aygaz should consider the Turkish macroeconomic environment as will lead critical results since the economy in a recovery period. Besides this threat Aygaz should also consider current attractiveness of Turkish market, which attracts big foreign furniture companies as another threat which would probably give complexity to the market in the long-run as companies require new marketing strategies and production capabilities

### **Core Competences:**

First core competence for Aygaz is Aygaz's wide distribution channel that determines the special selling points for Aygaz stores. Aygaz distribution

channel allows the company not only to create advertisement all around Turkey but also to reach every potential customer with lower costs.

Secondly, Aygaz is exactly match the demand with supply and by means of that provides with a cost-efficient supply chain and better after-sale services with decreasing lead time with intensification in the system by the practice of ERP system (enterprise resource planning) which integrated business management system that includes all aspects and computerized methods that are needed to effectively plan and manage a business make possible to. According to this activity it can be said that ERP system is constitute Aygaz success in the market and hence raises the level of a core competence.

### **Distinctive Competencies**

The most important distinctive competence for Aygaz is it has directly provides a cost advantage to company for transportation, which related to its logistics. The company also can be seen ad cost-efficient and build a competitive advantage over rivals by this way.

Secondly, since Aygaz has the ability to promote its product it should be seen as one of the distinctive competence. However in order to find most suitable promotion activities they should search impressive advertising campaign that make the Aygaz much more well-known, eligible and desirable according to customer perceptions in changing environment.

Finally, as Aygaz is well known for its higher quality products and superior services in the market, it has the innovation ability that benefited from investments in Research and Development that include better processes and

product attributes, which lead to create distinctive competence. This distinctive competence leads Aygaz to be better than its competitors.

### **Corporate Governance**

Aygaz A. Ş. belongs to the Koç Group that is owned and managed by Koç Holding. “ Koç Group has 93. 611 employees and operates the largest dealership network in Turkey with 14. 000 dealers, agencies and after-sales services”. Accountancy, “ Koç Holding operates in the automotive, consumer durables, financial services, energy, food and retailing, tourism and IT industries”. In addition to this, “ Koç Holding takes utmost care to operate in compliance with the highest international standards in the areas of corporate social responsibility, environmental protection, customer satisfaction, human resources as well as corporate governance” (www. koçholding. com)

As it is seen above information, Koç deals with one of the most problematic resource in Turkey, which is energy. Energy sector is very crucial for whole world as well as Turkey that is still in dependence to its neighbors today. Therefore, actually Koç contributes to the development of Turkey by conducting energy activities in terms of electricity, oil and gas. Koç Energy group has Aygaz, Bos and Mogaz under Industrial Gas and LPG business unit, Koç Statoil Gas, under Natural Gas unit, Eltek, Entek and Iztek under Electricity unit, and also has retailing fuel with Opet Group Companies.

### **The organization chart for Koç Holding is the following;**

Each and every manager motivated such that they all managing the leading services in the industry and working for the goods that have highest quality in the market. This is the result of their vision of being the leader and most

trustworthy LPG related service supplier in Europe by exporting their very high quality services and products.

In order to be that much successful, a LPG service supplier needs to be very reliable because energy is the sector in which there are too many corruption examples. Koç Group gained this trust in the eye of consumers by keeping their business units under control strictly. In order to maintain the trust in the eye of consumers, they should also keep the members, directors, and coordinators under control as well as their President Auditing Group. As far as we investigate, Koç Group gives great importance to the auditing, especially for the energy sector, which is more open to the corrupt. Therefore, they have a detailed and multi-stepped control mechanism. So that they do not miss any regulatory issues or laws, instead they control and maintain them.

Overall Koç Group as well as Aygaz, gives great importance to its stakeholders especially to their customers. They label their customers as “most important asset” for them and emphasize that they cannot risk losing their customers in order to gain more profit. Therefore, according to them reliability, honesty and business ethics are the most important value of Koç Group, which automatically lead them to achieve highest consumer satisfaction.

### **Corporate Culture and Ethics**

Like in all companies, corporate governance directly affects corporate culture in Koç Group. The crucial point for corporate governance, as mentioned before, is honesty. In order to reach superior standards of corporate



governance, cultural integrity and ethical behavior within its group, a corporation's culture also should be built on integrity. Even there exist some education programs for its employees in order to put through them the desired standards of ethical and professional behavior. As a result of this, Koç Group and its employees can reach the superior cultural, ethical, professional standards.

In addition to these, in order to fulfill the fairness, accountability, responsibility, transparency components of corporate governance, which shape, define the corporate governance and culture, Koç Holding uses many kinds of communication tools among its stakeholders. Some of these tools are conferences, quarterly or monthly meetings, interviews with board members or managers, etc. These communication tools make the connection among stakeholders, more reliable, consistent and judicious.

Moreover, Koç Holding is one of the first companies in Turkey, which has independent board of director members and auditing department, PriceWaterHouseCoopers. In order to manage this independency successfully and maintain its accountability, Koç Holding gives great importance to transparency, fairness and clarity at decision-making process. In its corporate structure applying internationally accepted auditing and accounting practices also help on that maintaining issue.

### **Relationships with Stakeholders**

Koç Group is generally known with its high quality products and services by the consumers. According to the Koç Group, this is one of the results of giving high importance to its “ Human Resources”, from its staff to its

shareholders, and satisfying them as much as possible. As mentioned before, Koç Group informs its stakeholders about their corporate and financial situation regularly, by organizing meetings, conferences, etc. As a result, all the stakeholders, no matter their position, feel that they are valued.

Together with this, Koç Holding has an additional department called “ Finance Group and Investor Relations Department”. Since Koç Holding is not only define shareholders as economic property owners of the company’s assets but also give them administrative rights, this department controls the shareholder relations. These administrative rights motivate the shareholders more to contribute to the company.

### **Generic Strategies**

The strategic development directions consist of the available options on the basis of market coverage and products with regards to the expectations of stakeholders and strategic capability of the organization. At that part, we will analyze the strategic choices of Aygaz A. Ş. While analyzing the strategic choices, generic strategies of both Miles and Snow and Porter will be used. The details of techniques of strategic options, directions for strategic development, and success criteria of strategic choices are going to be given. The other topics, which are going to be analyzed, are expectations, environment and capability-based motives for the strategies of Aygaz. Since the market and product have already been existed, the protect and build strategy is going to be used for those analyzes.

The largest market share of energy sector belongs to Aygaz in Turkey. The aim of the company is while keeping this success result same in Turkey,

catching up the same success in Europe. In order to satisfy this aim, under protect and build strategy, there need to be the combination of protecting and strengthening the position in existing market with existing products and penetrating the market in which the company increases its market share by leverage competences and the attractiveness of dominant market share.

The strategic development methods, which are strategic alliances, internal development and mergers and acquisitions, are doing to be evaluated.

Strategic alliance is more preferred by Koç Group rather than mergers and acquisitions. Aygaz's reputation strengthens the partnership with Koç Group, which is formed in 2001. This reputation gained by the differentiation of Aygaz by its wireless distribution service, auto-order system and computer based subscription code system, which are also leads the organic development of the company. In order to build and develop the company's own capabilities, for all Aygaz products Koç Group took the international quality patent and produced according to the company's own production patterns. Those are going to be analyzed detailer in the following sessions.

By looking at the expectations and capabilities of Aygaz, its international development is also going to be analyzed. The products that are produced by using high technology, the company's core competences also for international markets. It is hard to differentiate the products of Aygaz.

Therefore, the company aims that standardized product at its best by using identical service techniques like computer based subscription code system, auto-order system, etc. as mentioned before. Accordingly, we will see that all these features make the culture of Aygaz compatible with its targets.

Koç Group does not only have good reputation in Turkey but also it is the strongest representative of Turkey in the international market. These reputations are the primary triggers for Aygaz to conduct a strategic alliance. The technological capabilities of Koç help Aygaz to develop its offerings to consumers. Additionally, there is a mutual interest for both Aygaz and Koç. Aygaz engage in activities in Europe by using the experiences of Koç group and develop its competences, at the same time, Koç uses the bottled gas production capabilities of Aygaz.

As mentioned before, Aygaz gives great importance to all its stakeholders, including its customers, workers, shareholders, etc. and being respectful to the society and the environment. These priority points lead the firm to have good communication with people, society, etc. The mission of Aygaz is to protect these competences and improve them in time, as a result, improving its services to its consumers, increasing their satisfaction levels and becoming reputative brand also in Europe. Customer reliance, as a result of being a 46 year-old company, provided as competence.

We are going to explore the success criteria of strategic options by exploring the suitability, acceptability and feasibility to the company. Since the products do not suitable for any differentiation, satisfying consumers' needs come first place for Aygaz. Moreover, since the development strategy of Aygaz is protect and build, the company invests on to generate better understanding of customer needs, on exploiting superior resources, and on developing existing production also in Europe. Stakeholder expectations are also another crucial thing, which increases the company's acceptability. As a result, the profitability of the company increases when shareholders valued

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more. These are the strategic capabilities of the firms, which is also a result of resource deployment.

There are some questions that are asked to the interviewees in order to learn about resource deployment more deeply and in order to investigate that it is possible for the company to stay in business. The first one is if there is a need for more resources? The second one is about the threshold activities, whether the company below or above. Effective usage of resources is important for the company and this is another point for Aygaz to be the leader in