

# Bhp billiton swot analysis and porter five force analysis

[Finance](#), [Financial Analysis](#)



## Introduction

### **Aim:**

This essay aims to perform an analysis on the basis of integration of SWOT and Porter's Five Forces frameworks. The key aim of this essay is to establish the reasons behind the success of BHP Billiton, which is ranked 11th in FTSE100 Company ranking, and thereby represent the implications and recommendations.

### **Methodology:**

This paper is based on integration of the secondary research, which includes recent reports, books and journal articles.

### **Findings:**

The key findings indicate that BHP Billiton is a renowned diversified natural mineral resources company, with a distinctive market approach which gives the company a competitive edge over its peers. Being one of the world's top producers of iron ore and coal (thermal and metallurgical), the company's other products include aluminum, copper, manganese, nickel, silver, uranium and potash. BHP also has significant crude oil and natural gas holdings. BHP Billiton's strong market presence, vast array of products, and long-term customer relationship implies that the company stands firm, despite the recent economic adverse events. (BHP Billiton)

### **SWOT Analysis**

The objective of the SWOT analysis is to highlight the key strengths, weaknesses, opportunities and threats from the completed external and

internal analysis. This SWOT analysis will translate conclusions into strategic actions so that the company can execute opportunities and defend against threats.

### Strengths

BHP Billiton is a renowned natural resources company with a diversified portfolio of assets. The company is one of the largest suppliers of uranium, copper, silver, lead and aluminum. BHP is also a major producer of iron ore, metallurgical coal and manganese with operations in Australia, Brazil and South Africa. With eight operations across South Africa, Australia, the United States and South America, the company's Energy Coal section provides thermal coal for use in the electric power generation industry and general industrial concerns.

BHP Billiton has delivered superior financial returns over the past decade by returning the capital to its investors through an aggressive share buyback program has returned capital. This gives the company ability to retain strong A credit rating, which assists in raising the capital in global market.

The company offers a dedicated customer service for its product portfolio and at the same time pass along price increases to its customers as well.

### Weaknesses

The company needs to improve the measures of gross margin and the long-term financial return on equity to be closer in line with its peers.

BHP Billiton is currently facing several human resources issues impacting the operations. There is not enough qualified staff especially those trained in the mining sector.

The company is weak in corporate communications as the staff is not proactive in responding to corporate enquiries using new media or making effective group communication with the investors and stakeholders.

#### Opportunities

BHP Billiton has several projects in pipeline to execute. The feasibility phase of 29 projects, which is likely to become a significant source of revenue, provided projects are executed in a cost-effective manner.

The company can further work on strengthening its brand position by inducing innovative marketing solutions and using new media tools and customer outreach while marketing natural resources from the company's extensive assets. This means promoting the company's strengths and operations by creating brand awareness amongst its customers.

After Kyoto Protocol becomes essential to abide, BHP Billiton committed to a reduction of 5% in greenhouse gas emissions. This program if managed properly can become a positive source for environmental responsibility and sustainable development. Being a significant source for energy commodities there are opportunities to further integrate into the supply chain and operations of transportation companies and utility companies to capture additional profit margin and lower costs further.

#### Threats

BHP Billiton is facing threat from continuously rising costs from suppliers, including energy, shipping and contract labour costs; inflation and labour staffing issues, which are restricting the company growth and development. The company is facing continuous political threats even in its home country, Australia, as the company has received an unfavourable ruling from the

government regarding infrastructure access and the political dynamics of being on the 'right side' of issues cannot be underestimated.

BHP Billiton severely relies upon China's demand for natural resources and any global slowdown in world markets could directly impact the sales and profitability of BHP. The company must work to fulfil demand yet remain financially disciplined to achieve increasing levels of profitability along with growth in shipments of natural resources commodities.

### **PORTER FIVE FORCES ANALYSIS**

The Porter Five Forces Analysis offers a strategic view of the competitive external environment facing BHP Billiton. It enables the opportunity to assess the sources; strength and impact of the competitive forces and the affect each of these have on achieving company goals and objectives.

#### **Bargaining Power of Buyers**

Is moderate to low as the company can pass along any price increases due to strong demand and limited supply of natural resources in the market.

There are not many substitutes available in large quantities, which reduce the bargaining power of buyers.

The company focuses on retaining long-term customer relationships, thus diminishing the impact of price increase.

The global macroeconomic environment is expected to stabilise before improving in the first half of the 2013 financial year. This is likely to maintain the company's position strong in the upcoming period. (Digital Look, 2012)

#### **Bargaining Power of Suppliers**

BHP Billiton is largely impacted by the bargaining power of suppliers in

labour, materials, energy, shipping, and energy costs. As the company ensures reduced capacity through enhanced operations, the overall costs from suppliers have increased as well. In the above-mentioned categories, there are negligible substitutes available, which enhance the strong bargaining power of suppliers.

#### Threat of New Entrants

The threat of new entrants is relatively low. Due to dearth of natural resources there is very limited capacity and supply available in the global market, which restricts any new entrants in the market.

Due to drop in commodity prices, the pace of demand of iron ore from China has slowed down by more than half. Demand will grow less, although still quite impressively and the producers, in general, are more prepared. These factors are likely to play significant barriers for the new entrants rather existing. (Bloomberg, 2012)

Moreover, BHP Billiton, being the biggest mining company, holds enhanced infrastructure, latest technologies and trained staff to offer better quality products to the market. For the new entrants it will take a while to upgrade the level.

In regard to geographic locations, BHP Billiton has best natural resource locations than new competitors entering the market. Several companies have made extensive moves across Africa, India and China for natural resources but the threat of these companies remains moderate to low.

#### Threat of Substitutes

The threat of substitutes is quite low, as there are not many substitutes for raw material products in the market. BHP Billiton is strongly placed, due to

its broad, diversified portfolio of natural resource assets, to counter any threats of substitutes.

#### Intensity of Existing Rivalry

The rivalry among competing sellers is tough. This is due to the fact that several natural resources companies are competing for access to the reserves available across the world; along with retaining qualified staff; and building infrastructure, transportation and new development projects. On the reserves side, there is a geographic overlap in most areas worldwide, and to retain trained staff has augmented labour wages.

However, despite the strong rivalry, the industry remains lucrative due to strong profit potential. As a result, the lowering natural prices are not likely to impact the industry players as they stand affirmative.

Also, there have been takeover speculations in the natural resources industry. Mining titans BHP Billiton and Rio Tinto are to generate about \$20bn in free cash flow, giving each substantial options for acquisitions and capital management. (Merril Lynch, 2011) In 2005, BHP Billiton purchased WMC Resources of Australia during a takeover battle. The company as a result has the largest uranium reserves in the world and secured a major source of future growth.

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