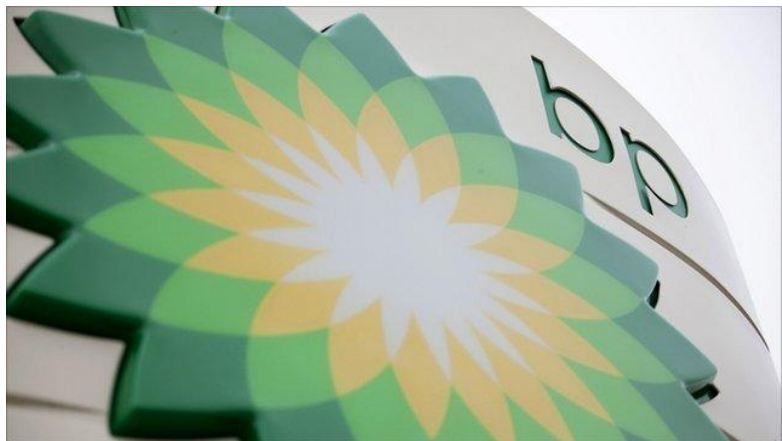




British Middle East Center
for Studies and Research

Examine the multinational company BP



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Introduction

The following report will examine the multinational company BP. It will include Theories and concepts to illustrate the challenges and issues the company faces and to what extent this affects their finances. The company's organisational structure and their marketing strategy will be analysed to demonstrate how they incorporate these different aspects to produce sales. Recommendations will be integrated to identify the company's competitive advantage and their core competency.

Overview

BP (British Petroleum) is a multinational oil and gas company which operates in 6 continents and has services and products available in more than 100 countries. BP was originally established in 1908 as the Anglo-Persian Oil Company, however in 1914 the business began to deteriorate due to it being unable to compete with existing reputable businesses. The UK Government became major shareholders by investing in the company to stabilise its finances. In 1935 Persia changed its name to Iran; consequently The Anglo-Persian Oil Company became the Anglo-Iranian Oil Company. In 1954 the company became known as BP (British Petroleum).⁽¹⁾

BP has approximately 92,000 employees worldwide and has more than 1.2 million shareholders. They have a refinery capacity of 2.7 million barrels of crude oil per day and 17 refineries in which they have an interest.⁽²⁾

The company's main objective is to geographically locate sites where oil and gas are present and to produce methods to extract these products. These products are then transported to refineries via pipelines, roadways, railways or by shipping. The raw materials are refined into a variety of products such as; gasoline and motor oils which are sold to a range of customers.⁽³⁾

BPs core brands include; Castrol, BP, Acro, Aral, ampm and Wild Bean Café. The BP brand also has alternative sources of renewable energy such as; wind, solar and biofuels. BP has research facilities and wind farms so that they can continually find new ways produce energy in an environmentally friendly way.

BP carry out many different roles worldwide and their exploration and production of oil and gas is active within 29 countries. Their headquarters are located in the UK making them one of the UK's top corporations. The UK is the centre for all the major business operations for BP such as; legalities, financing and trading. The other countries are responsible for the refining, marketing and sales of their products as well as the production of natural gas.⁽⁴⁾

Many of BPs activities around the world consist of joint ventures where BP offer their expertise, training and management support enabling other oil companies to develop new business ventures with the aid of a well established oil and gas company such as, BP.

However, In April 2010 the company suffered a major setback when an explosion of the deepwater horizon occurred in a drilling rig BP was leasing. The damage caused has put the company under scrutiny and left bps reputation and its financial prosperity in turmoil.

1. Global business environment

1.1)BP competition

BP, as a multinational company has major competition. It has worked relentlessly to build an environmentally conscious, green company image, and by 2009 it was benefitting from the rewards. Its multimillion dollar beyond petroleum marketing campaign has given BP a complete advantage over its competitors. BP understood that It was essential to get the price right in order to generate Profit which is the difference between the money a firm receives from its customers, its revenue or turnover and the money it has to spend to produce and sell its product or service, known as costs. BP is very successful at producing the goods and services that customers want and selling them at a price customers are willing to pay. Therefore trade takes place, which is when both the buyer and the seller are happy with what is being offered by the other party. We can show this relationship using a simple supply and demand diagram.



(Figure 1)

The demand curve shows how much consumers are willing to buy at different prices: they buy more as the price falls. The supply curve goes in the opposite direction: companies want to supply more of something as the price rises because they are likely to make more profit when the price is high.

1.2)Government

The Government can also influence buying and selling decisions to meet goals of its economic policies by controlling the amount it spends on goods and services and the amount it taxes workers and companies. These government actions are known as fiscal policies.

BP makes a significant contribution to the economy by providing jobs and incomes for workers. It also makes a major contribution to the taxation that governments receive around the world. In 2008, its contribution was equivalent to \$12.6bn.

1.3) Community

Businesses are involved in the economy but they are also part of society and our communities. Every society and every community has stakeholders: groups of people who have a common interest. Bps primary goal is to keep stakeholders happy.

1.4) Implications the BP crisis has had

Bp as a multinational controls the giant production and distribution of products that handle the majority of the world trade, Production is worldwide and tends to concentrate on countries where labor costs are low and skills are high, therefore higher productivity is achieved. Companies become multinational to:

- To diversify themselves against the risks and uncertainties of the domestic business cycle
- To tap the growing world market for goods and services: gain access to new customers for current g/s, particularly as product lifecycle reaches maturity in domestic market
- In response to foreign competition
- To reduce costs: gain access to low-cost factors of production
- To overcome barriers to entry into foreign markets
- To take advantage of technological expertise by manufacturing goods directly

The incident that took place on the 20th April 2010 has damaged bp reputation and its public relations. This crisis will have deep ramifications for bps future. The company faces a challenging task to rebuild trust.

BP and the environment

2.1) BP and its obligation to the economy

BP has a special role in our economy and throughout the world because of its size and presence across the globe.

BP has a big responsibility and people expect it to meet these obligations. One of its responsibilities is to ensure security of supply. This means BP is expected to make sure it is always able to provide enough oil and gas for its customers. Some of BP's responsibilities are also legal conditions to which it must adhere.

2.2) BP and its obligation to the environment

BP's also has responsibilities to protect our environment. Every organisation has a set of values. These values are very important: they shape the way an organisation is set up and run. More

importantly, they influence the impact or effect an organisation has. One challenge for any organisation is to translate its corporate values into concrete and practical action.

2.3) BP and the future

BP is exploring alternative energies for the future; this refers to several new and innovative ways of generating the power we need. This is a more environmentally friendly solution.

BP is investing large sums of money in alternative energy technologies. These technologies are likely to become more important and to be accepted as alternatives to more traditional sources of energy such as oil, gas and nuclear power. The company has committed to invest \$8 billion between 2005 and 2015 in alternative energy however the future of renewable energy is uncertain due to its current financial crisis.

2.4) implication and challenges

The implications of the oil spill on the economy and the environment are so vast that its too complex to cover in this report. The bps current situation will shake an already unstable economy and the affect s this will have on the environment are catastrophic. Bp has successfully branded itself as an environmentally friendly company, they have set themselves a high standard, and they now face the task of proving themselves by how well they clean up the mess.

Organisational structure

3.1) organisation

People are the most valuable resource for any organisation. An organisation is a group of people with common values and beliefs that aims to achieve one or more goals. Organisations can be small or very large and global like BP. Different organisations may have different goals and these can change over time. The structure of an organisation describes how the group is built up, how work is completed and, more importantly, how shared goals are achieved.

BP is a very large global organisation with many complicated activities and processes. Tasks need to be divided up in a much more organised and structured way.

Within each of the Business Segments shown in Chart 1, BP employs lots of workers with different skills. These workers are divided into layers with different levels of responsibility. The BP structure is typical of large corporations; it is a hierarchy. Smaller firms are less complex and need fewer levels of hierarchy. These are referred to as 'flat' structures.



Chart 1: BP business operations

3.1) communication

Effective communication is crucially important to a business for many reasons. A successful business such as BP needs to think carefully about the best ways to communicate information around its business. Different methods of communication are most suitable for different types of information.

3.3.) leadership and management

An effective leader is someone who can show others a vision for the future and can lead others in the right direction. For example, an effective leader in BP might be able to advise where oil might be found and how it could be extracted. An effective manager is someone who can make sure jobs and activities are done properly. For example, an effective manager in BP might listen to the leader and then make sure all the equipment is ready for oil drilling, adequate staff have been hired.

3.4.) how the organisational structure changed since the oil spill

Bp has undergone major restructuring under the new management of the new CEO Robert Dudley, Dudley said that BP was to re-structure its upstream segment from a single business into three separate functional divisions; exploration, development and production, which would carry out a detailed review of how the group managed third-party contractors in order to reinforce accountability for risk management. The company is doing this because of the findings of an internal report; it stated that the breakdown in communication was one of the contributing factors to the BP disaster.

Marketing

4.1) products and brands

Products are particular goods and services. Brands are specific named products that are often recognised by consumers.

Over time, brands can help to deliver important messages about goods or services. By looking at BP's products and brands we can better understand how effective marketing is crucial to the long-term development and success of a company.

4.2.) understanding customer needs

In October 2005 BP launched a new and innovative vehicle fuel involving three separate products: BP Ultimate Unleaded, BP Ultimate Diesel and BP Ultimate 102 Unleaded. Each product is designed to meet the needs of different groups of consumers or market segments. By creating a product that appeals to the particular needs and tastes of specific segments, BP hopes to meet customer needs better.

BP uses a combination of primary and secondary research to first find out what market segments there are, then to assess the exact product requirements for each.

4.3.) Bp product life cycle

The product life cycle shows the different stages that goods or services go through over time and the effect each stage has upon sales.

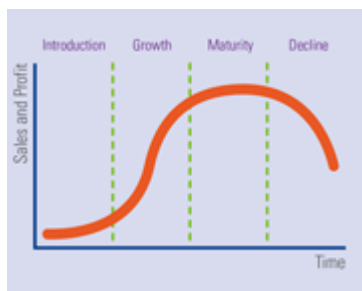


Figure 1: The product life cycle

Shows the four main stages: introduction, growth, maturity and decline. Most products follow this pattern and successful companies like BP need to be aware of where each product is on the life cycle.

Promotion is a very important activity that underpins the product life cycle. BP needs to undertake extensive and effective promotion to help launch its products, but it also needs a longer term strategy; without this the promotion will not have a long-lasting effect. It needs to come up with an effective marketing strategy looking at the marketing mix of price, promotion, place and product.

4.4) BP marketing strategy

BP's marketing strategy has been to portray itself as a green company. BP has promoted new 'cleaner' fuels and publicised its targets for reducing CO2 emissions from its own operations.

The company has spent a lot of money to rebrand itself and it succeeded, however bp has to come up with a different marketing strategy as bp will lose a lot business to its competitors as people question BP green image.

Resources production and technology

5.1) BP and resources

There are five key resources or factors that every organisation needs to consider when creating a product or service for its customers: land, labour, capital, entrepreneurship and technology.

Capital is the money and or equipment the company needs to make its products; entrepreneurship refers to the skills and talents some people have that enable them to do new things, come up with new ideas, take risks and innovate

5.2.) the production chain

A production chain describes the main stages by which goods or a service are created. At each stage of the chain, all the five factors of production are likely to be used

5.3.) economies of scale

'Economies of scale' is a simple but powerful concept and it is very important to the successful running of BP's operations. Economies of scale refers to the situation when a large company like BP can pay less for something it needs because it needs a large quantity. Lots of different businesses rely on economies of scale to reduce their costs so that prices for customers can be lowered and the business can remain competitive.

5.4.) technology

Technology is a broad term describing new and more effective ways to make goods or services. It affects every organisation.

Successful businesses such as BP are keen to harness the benefits of new technology. Some of these benefits might come from reducing waste or helping employees to work more productively. BP has also used technology to ensure its operations are undertaken in a caring and responsible way.

5.5.) challenges

Bp is currently focusing on their marketing strategy by working with Intel to develop new technology and new ways to penetrate the market. Bp faces the challenge using of its capital and resources effectively.

Accounting and finance

6.1.) costs revenues and profit

All organisations have to pay bills or costs. Sometimes these costs are to do with setting up the business for example, buying land or machinery and are known as 'set-up costs'. Other costs are to do with keeping the business running for example, wages and buying raw materials or stock – and these are known as 'running costs'.

Costs can also be classified as 'fixed costs' or 'variable costs'.

Fixed costs – these do not vary with the output, e.g. rent and heating: it does not matter how many barrels of oil BP produces, it still has to pay rent for offices and pay to heat them.

Variable costs – these do vary with output, e.g. buying raw materials and paying for the electricity needed to power machines. For BP, the variable costs of running an oil rig include the costs of transporting the oil to the shore and refining it: the more oil produced the higher BP's variable costs. The money a company receives from customers is known as revenue. BP wants to maximise revenues and minimise costs because the difference between the two is its profit.

One of BP's key objectives is to earn profits for shareholders, the people who own BP and who employ directors and other staff to run the company on their behalf. Much of the profit is returned to shareholders as 'dividends'.

6.2.) cash

Cash flow refers to the movement of money into and out of a business over a period of time. Cash flow is crucially important to an organisation because it needs to ensure that it can always pay its bills and that it has enough money to keep the business operating.

Cash can be derived from a variety of sources. Most of BP's cash comes from the revenue it receives from selling products and services to customers, but it can obtain cash from other places too.

6.3.) significance of profit

Profits are important for two main reasons. First, profit is what shareholders get back for investing their money in BP. Shareholders expect some profit or 'return' on their investment. Second, profits are a good way for a company to fund future expansion. BP does not always return every penny of its profit to shareholders; it keeps or retains some profits to help it search for new oil and gas reserves, invest in new technology or replace worn out machinery.

6.4.) bps financial ratio

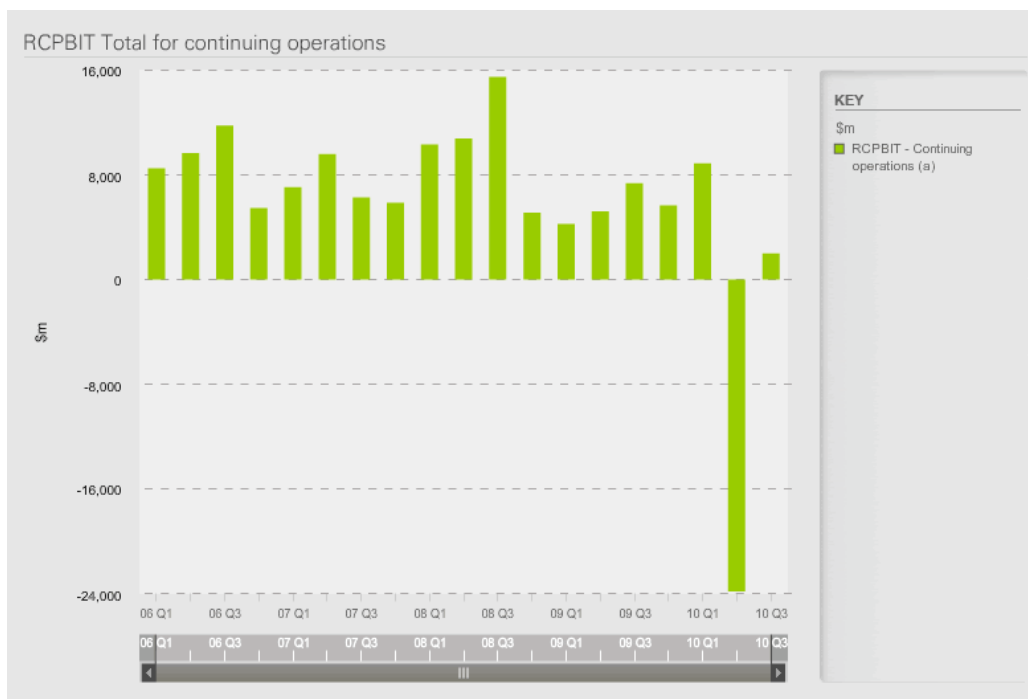
Financial performance and strength can be measured in many ways. There are four key types of measurements.

1. **Performance or profitability.** These measures look at how much profit has been made, taking into account the size of the company.
2. **Liquidity or solvency.** These measures show how easily a company can pay its bills.
3. **Gearing ratio.** This represents how much of the company's capital is tied up in loans. The higher the gearing, the higher the proportion of the capital that is represented by loans.
4. **Shareholder ratios.** These calculate how well shareholders have been rewarded for placing their money in BP.

BP uses a wide range of financial data to measure its performance, but it also takes its social and environmental responsibilities into account.

6.5.) Bps current financial situation

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BP's second quarter replacement cost loss was \$16,973 million, compared with a profit of \$3,140 million a year ago. For the half year, replacement cost loss was \$11,375 million compared with a profit of \$5,527 million a year ago. Since the disaster bp had to sell some of its assets and suspend dividend payments.



This chart shows the replacement cost profit before interest and tax.

Conclusion

BP is not in a very secure financial position. Improvements in every area of the company are needed if it's to survive. The key areas of reform are the image of the company and the quantity and quality

of working capital, profitability, and financial stability. Management must address these areas simultaneously if the company is to overcome its present poor record.

It must be remembered that this analysis is limited: a greater depth of understanding and evaluation can only occur with utilisation of other resources such as comparisons with budget forecasts and the statement of changes in financial position. Only after this process can a full appreciation of the company's current situation and possible future occur.

At this point the company does not have strong future prospects in the areas of profitability, liquidity or stability if it continues on its current path. Investors should be concerned with current rates of return and management and creditors should be concerned with the liquidity of the company as indicated in the ratio analysis.

Recommendations

- It is recommended that the organisational structure should become more centralised. This will improve cost efficiency and inject greater consistency into operations.
- Focus on diversification, branch out into unrelated industries
- Franchise
- Developing better, clearer standards and processes for a range of activities in deep-sea drilling from cementing, to testing for leakages, to well control and general risk management.
- Significantly improving education and training of BP personnel to enhance capability and competency.
- Focus on company's competitive advantage such as loyalties and market strategy
- Carry out a swot analysis and really focus on the company's strengths.