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2002

Archive

2001

select a month:



2000

1999

1998

1997

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Lord Goold Memorial Lecture: marketing strategy

Lord Browne, Group Chief Executive, BP

Speech delivered in London for Bradford University's Fourth Lord Goold Memorial Lecture

23rd November 2001

Chairman, Ladies and Gentlemen, good morning and thank you for that very kind introduction.

It's a real pleasure to be here and an honour to be invited to deliver this lecture.

I can't help being reminded that the last time I gave a speech on the theme of strategy, which of course included our marketing strategy, was just ten weeks ago.

I was explaining our strategy to an audience of investors – one of our most important audiences.

That was in Barcelona. And the date was September 11th.

When I'd finished talking we flew off intending to travel to the West Coast of the USA – but when we were over Iceland we heard the news and we turned back.

I think that's a good place to start today because the events of September 11th and everything that has followed have reminded us of some very fundamental truths.

The limit of our ability to determine the shape of the world in which we work.

The necessity of having a strategy strong enough to sustain us through volatile and unpredictable times.

And the crucial importance of communications – to give all the audiences which matter an understanding of the reality of the company, its track record and its aspirations.

September 11th reminded us that however big companies become, they can't control the environment in which they are operating.

In common with everyone else we are subject to events.

The full consequences of what happened that day are still not clear - but as a company we are, and could be, affected in a number of ways.

People are flying less – which means that the demand for fuel is down.

Air BP is one of the largest suppliers to the world's airlines so we've seen an immediate impact on sales.

We're also affected by any slowdown in economic activity – in the US and beyond.

We're affected by the decisions on output taken by the oil exporting countries in reaction to the downturn in world demand.

We're affected because we have substantial operations in a number of predominantly Muslim countries – including Egypt, Indonesia, and Algeria.

We have several thousand Muslim staff.

We have plans to work on the development of natural gas in Saudi Arabia.

We have existing business in Russia and Turkey and the aspiration to do more in both countries as well in Iran.

In all those areas the changes both within countries and between countries could influence our ability to do business – positively or negatively.

But we can't determine what happens in any of those areas.

However large we might seem, we're still what the economists call "a price taker".

That is true in these special circumstances - and it's true generally.

We're a very small part of the total world economy. Perhaps 0.01 per cent.

We have the power to invest, which is very important, but we're working in a climate of intense competition, particularly in those areas where investment is most attractive.

We can plan ... but events will always overtake any plan.

All we can do is to watch carefully, to keep an open mind on the possibilities of change and to be ready to move. Ready to act to limit the negative impact of events but also ready to take opportunities when they come up.

That is where strategy comes in.

Giving up the illusion that you can predict the future is a very liberating moment.

All you can do is give yourself the capacity to respond to the only certainty in life – which is uncertainty.

The creation of that capacity is the purpose of strategy.

Our strategy starts from a view of the world in which we are participants.

The world we see is one of growth and opportunity.

In the current climate that might sound counterintuitive.

Aren't we on the edge of recession, and in danger of being pushed over that edge by the events of September 11th ?

Well there's clearly some downturn in the economy – in the US and internationally. There's clearly a cloud over consumer and business confidence.

There's still an economic cycle and in a number of sectors, including in our case petrochemicals, we're in the downward phase of that cycle.

But we shouldn't be carried away with pessimism.

The reality of the terrible events of September 11th is that they affected, at worst, no more than 1 or 2 per cent of global economic activity. 98 or 99 per

cent of activity continues.

There is an economic cycle, but it isn't a single cycle. Different sectors and different countries are at different points in the cycle. There is still substantial growth.

The European economies will grow by around 2 per cent this year. China will grow by 7 or 8 per cent.

And even though it is fashionable to write off the US, I wouldn't be surprised to see positive growth in the US economy within the next two or three quarters.

And beyond cyclical growth there is the structural growth which arises from the gradual expansion of population numbers and the gradual spread of prosperity.

Around 90 million new citizens are born every year. Each one of those 90 million individuals needs heat, light, mobility and food – and that means energy.

As economies open up and prosperity spreads more and more people each year have the ability to buy what they need.

That process continues – even if the pace of improvement in some countries is delayed by the current economic downturn.

At the moment we have around 11 million customers every day.

If you look at the way prosperity is spreading there are probably another 200 – 250,000 potential new customers every day.

To capture even a fraction of that would secure a steady rate of growth.

The outlook is for underlying growth of perhaps 1 to 2 per cent a year in oil consumption; perhaps 2 to 3 per cent a year for natural gas. In some markets the pace of growth is significant faster.

So we're working in a growth sector.

But nothing is simple, of course.

The other characteristics of the world in which we work are volatility and challenge.

Volatility because the price of our main product is determined not just by supply and demand but also, and sometimes predominantly, by the political decisions of the oil exporting countries.

Over the last three years alone the oil price has varied between \$ 9 bbl in the winter of 1998 and \$37 in September of 2000.

At the moment it seems to have settled within a range between \$ 18 and \$ 22.

The natural gas price in the US, which is determined partly by regulation and the potential for substitution as well as by actual supply and demand, varied between \$ 10.27 mmbtu and \$ 1.78 mm btu during the first nine months of this year.

At the moment it is back around \$ 2 mmbtu.

We have to live with that volatility as well as the normal process of the economic cycle.

And then we have to accept that the industry of which we're part faces a fundamental challenge - on the environment.

There is a strong and widespread belief that the growing use of hydrocarbons is creating an unsustainable pressure on the natural environment both through air quality and through the risk of climate change.

Of course, the science of climate change is still provisional.

There are no certainties about cause and effect or about the detailed consequences of increased energy consumption.

But serious scientific work by IPCC and others has identified the risks as substantial, and a company in the energy business would be foolish to ignore those risks – particularly since so many of our customers believe them to be real.

So, growth, opportunity, volatility and challenge.

All in a very competitive environment.

That view of the world in which we're operating sets the context for our strategy.

It is clear that the only guarantee against volatility is to have assets of the highest quality.

That means the lowest cost resources and the most attractive market positions in areas of strongest growth.

The only way to capture opportunity and growth is by extending reach. To have positions in the right sectors and regions and to be in a position to take the best opportunities when they come along.

That's why we've extended our geographic spread over recent years – into China and Russia and Latin America and why, through organic growth and through acquisition, we've established a very strong position in natural gas.

Opportunity also comes through technology and that's why over the last decade we've integrated our technical work into our operations.

That has produced some tremendous successes – the ability to explore and produce in very deep water for instance ... and the ability to use advances in IT to link the whole company internationally in ways which encourage cooperation and learning.

If we make a breakthrough in drilling which saves just 2 or 3 per cent of the cost the value lies not in applying that breakthrough once, but in applying the lesson to every drilling operation around the world.

If we see change in a particular market in one region, the value lies in ensuring that all our operations can adjust to that change very quickly.

That's why our 130 business units are linked both by networks of individuals and by regional structures to capture synergies.

Those units are distinct, and their leaders have direct accountability for performance ... but they are linked by processes and incentives which encourage the sharing of knowledge and of learning.

And then it is clear that the only acceptable way for a company to respond to challenges such as the environment is to offer new solutions. We can't live in denial or pretend that air quality and global warming aren't real issues.

That's why we've argued for precautionary action on climate change, and why we've tried to show what can be done - by reducing our own emissions.

It's why we're introducing new fuels – petrol and diesel without lead or sulphur or benzene – which can improve air quality. Those fuels are now available in 75 cities around the world.

So those are some of the key strands of strategy.

Having assets of the highest quality.

Having reach supported by an organisational structure which can capture and apply learning on a global basis.

And having a belief in the possibility of progress – by offering solutions to problems and by transcending trade offs.

And there's a fourth strand which runs through everything.

That is the commitment to performance.

Performance is what gives a company the financial strength not just to cope with volatility but also to take the opportunities which volatility produces.

It's worth remembering that volatility isn't always a threat. It's a time when change creates new possibilities. The key thing is to have the strength on the basis of past performance to seize those opportunities.

Performance is also the foundation of trust. In all the relationships we have – with shareholders, staff, partners, governments and customers, our track record of delivery will determine whether they choose to do business with us again.

Now, I've talked about strategy.

What has that to do with branding and marketing?

Everything.

Without a clear business strategy, there can't be a clear and credible brand.

Our corporate brand reflects the strategy I've described – not just at the abstract conceptual level – but in the experience of every single one of those 11 million customers around the world when they do business with BP, and the experience of every community in which we work.

Green – producing and providing products which no damage to the natural environment.

Innovative – using technology and the talents of 100,000 people – our human capital – to find new answers rather than settling for something imperfect and inadequate.

Progressive – because the future is more important than the past.

And performance driven – always – because real trust comes when you can show that you can work and deliver not just in good times but in the dark times as well.

That you can continue to deliver even when the going gets rough.

As we've grown in scope and scale and become more global, I think we've begun to realise that instability is the norm not the exception – and that we have to adapt to that reality without sacrificing performance.

Those are the brand values and they apply everywhere and always.

When I was in South Africa a little while ago I went to one of our largest and

most successful retail stations – in the black township of Soweto.

That station stands at the heart of the community. It's a meeting place, a social centre as well as a place to buy petrol and food.

Our customers – the individual men and women who buy what we sell will find our brand values are reflected in that station.

They'll find the products they want to buy at a price they can afford – in a place which is clean and safe ... which has developed through one innovation after another to match the changing needs of a complex community.

I talked to some of those people and they told me that the station is part of the history of Soweto.

It was built at a moment of great difficulty and tension and because of that a symbol of modernisation and progress. A symbol of commitment to the future. Their future.

Then another completely different perspective.

Just two weeks after September 11th I was in New York and I was told about the things our team had done there in response to what had happened.

Providing a million gallons of fuel free to the New York Fire Department in the immediate aftermath of the crisis.

Providing direct support and help to those whose relatives and friends were trapped in the World Trade Centre.

And donating, on the basis of contributions from BP staff and their families around the world, \$ 10 million dollars to the Disaster Relief Fund.

One of the most moving things I did that day was to talk to our staff – some of whom had watched everything that happened from the top floor of the office.

Their lives had changed. Some had lost friends. Their sense of security had been violated.

But they kept working - because they thought it was right to demonstrate that whatever else had been destroyed their discipline and their values had not.

I could quote many other examples – some less dramatic but all I hope indicative of what a brand really means.

Values which match strategy and which are expressed in performance.

And that is what we mean by Beyond Petroleum.

Thank you very much.

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