A Proposed Marketing Plan for Transocean, Inc.

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Abstract

Oil is an integral part of the world economy and the lives of the people that depend on it as a major source of energy. The companies that comprise the oil industry, therefore, wield power and influence in the world. Transocean, an oil exploration and drilling company, is the world’s leading provider of contract drilling services.

An in-depth look at the oil industry includes industry operations, and industry and macroenvironmental trends. The demand shifters of the industry are evaluated, as well as Transocean’s ability to respond to those demand shifters. This leads to a proposed marketing plan for Transocean, including specific actions to take in utilizing the Integrated Marketing Communications Mix.
How the Industry Operates

According to the North American Industry Classification System (NAICS) the industry in which Transocean operates is the exploration phase of oil and gas drilling, the code being 213111. The industry is primarily comprised of establishments engaged in drilling oil and gas wells for others on a contract or fee basis.

Drilling for oil and gas consists of three phases. First is the exploration and drilling phase, also called the upstream, of which Transocean is a part. This phase begins with the search for oil and natural gas by locating hydrocarbon accumulations and analyzing subsurface conditions. If this process yields data that points to the presence of oil and natural gas, a test well will be drilled and information regarding the downhole conditions will be logged. The logging phase can be complicated by the fact that few electrical logging systems can take being heat soaked for the amount of time it takes to drill a test well. If the well is believed to contain large enough quantities of oil or gas, it will be completed before production begins. This means that by using casing and tubing, one or more flow paths will be built for hydrocarbons to travel between the well and the Earth’s surface, through a process called lifting. Rarely can oil be lifted to the surface without some stimulus at first, such as pumps, water, chemicals, or combustion, because of built up pressure in the reservoir. Gas, on the other hand, usually can flow freely as a result of the natural pressure gradient.

The second phase is the transportation and storage phase, also called midstream. This is when the oil is moved from the wellhead to a refinery, internationally by barges or tankers, and on land by pipeline, truck, or rail. Gas is normally moved through pipeline, and sometimes can be pressurized into LNG (liquefied natural gas) to transport
internationally in tankers. Storage is an essential function because it provides a means of managing fluctuations of supply and demand. Oil can be stored at multiple places all throughout the supply chain. In addition, the government has set up the Strategic Petroleum Reserve (SPR), which is to be used in case of a severe supply disruption that threatens national security, as well as the Northeast Heating Oil Reserve which helps to reduce the risks presented by shortages of home heating oil.

Finally are the refining and marketing operations, also called downstream. Crude oil, being a complex mixture of hydrocarbons, can by characterized by molecular weight distribution and separated according to boiling points. Crude oil is normally categorized as light, medium, or heavy. Refining it can result in a multitude of final products and usually begins by vaporizing the oil in a crude distillation tower so that the various ingredients can be drawn off as their boiling points are reached. Lighter weight products vaporize at lower temperatures and can be drawn off the top, medium at moderate temperatures and are drawn through the side, and heavy with high temperatures and are taken from the bottom. The refining process also includes hydrotreating, cracking, and alkylation. Hydrotreating is a process that selectively removes one or more unwanted materials from the oil such as sulfur, nitrogen, or oxygen. Cracking is the process of breaking a hydrocarbon into smaller parts, and reforming rearranges the molecular structure of hydrocarbons for various purposes. Alkylation produces a blending component for motor gasoline which is important because gasoline is one of the highest valued products from a refinery. Once these three phases have been completed, the various refined oil products are then ready to be sold wholesale or retail to customers (Vital, 2006a).
Industry Trends

*Higher Investment*

Because demand for refined petroleum products is increasing at a faster rate than incremental refining capacity, high levels of energy investment are going to be needed for suppliers to keep up. Some estimates anticipate that increased spending will continue through 2030.

*Consolidation*

Throughout 1998 there were sharp drops in oil prices, causing major oil companies to search for ways to cut costs in order to remain profitable. This resulted in a uniting of many different oil companies through merger or acquisition, leaving the oil business today less fragmented than in the past.

*Upstream Spending at High Levels*

The recent high oil prices have increased the cash flows of major oil producers, yet many believe that capital investment in upstream activities has not kept up as a result of budgets that were set years in advance. Spending is now beginning to increase, especially in international venues as their economics have become more attractive. According to energy research firm John S. Herold, worldwide upstream capital spending in 2005 grew 31% to $277 billion from $211 billion in 2004 (Upstream investment, profits, 2006).

*Low Sulfur Fuels*

There has been a global movement toward low sulfur, or “sweet”, fuels which is an outcome of tightened standards for sulfur content in motor oils. Unfortunately, though, there has been an increase in the supply of heavy fuels with more sulfur, or “sour” fuels.
Refiners are now facing challenges from the complex and expensive process of refining sour crude. Therefore, many new or expanded refinery projects are being planned worldwide.

*Refining Capacity Growing*

Worldwide refining capacity is continuing to grow for the fourth year in a row, although the number of refineries has actually dropped. This can be attributed to the fact that many refineries are producing closer to their capacity, while some are expanding. The United States, especially, has seen this consolidation trend.

*LNG is Leading Natural Gas into Global Market Expansion*

Although it has been shown that natural gas resources have grown faster than demand, the importing of liquefied natural gas will still increase in OECD (Organization for Economic Co-operation and Development) countries because the discovery of additional gas reserves in these countries has not kept pace with the depletion and increase in demand (Vital, 2006b).

*Current Environment and Politics*

In his book, *The Prize*, Daniel Yergin wrote:

…oil equals power had already been proven in the battlefields of World War I, and from that conflict emerged a new era in relations between oil companies and nation-states. These relations were, of course, fueled by volatile dynamics of supply and demand: who had the oil, who wanted it, and how much it was worth. Yet now more than economics of the marketplace had to be factored into the equation. If oil was power, it was also the symbol of sovereignty. That
inevitably meant a collision between the objectives of oil companies and the interests of nation-states, a clash that was to become a lasting characteristic of international politics. (Vital/Current environment, 2006).

Because oil is a necessity, scarce, and geographically concentrated in certain areas, it inevitably will be affected by politics. Prices of oil rise and fall in response to major geopolitical occurrences, such as the Hezbollah-Israel conflict in July of 2006. Coincidentally, the Middle East which is known for political and cultural unrest produces almost a third of the world’s oil.

_Drilling Boom_

Currently, drilling companies are continuing to flourish in one of the strongest industry environments in the past 20 years. Increased demand and increased prices are causing drilling activities to skyrocket both domestically and globally. Offshore international demand is so strong that most drilling companies have shifted their rig assets to markets other than the U.S. The main reason for the increased attractiveness of international markets over domestic is environmental regulations in the Gulf of Mexico mostly as a result of the recent hurricanes. After Hurricanes Katrina and Rita in 2005, the Minerals Management Services (MMS) issued constricting guidelines and regulations. Also, as a result, insurance premiums have increased.

Day rates are “the daily cost to the operator of renting the drilling rig and the associated costs of personnel and routine supplies” (Schlumberger, 2008, ¶1). Day rates have soared in other parts of the world, and the increase in profitability has caused an increase in international drilling.
Life Cycle Analysis

Most products can be classified by a stage in their life cycle. The stages of the life cycle are the growth, maturity, and decline. The growth phase is characterized by rapid market acceptance and increasing profits. Maturity is characterized by a slowdown in sales growth because the market has been saturated and profits level off, as well as a competitive shakeout as companies consolidate into fewer, but larger, competitors. The decline phase is the period when sales fall off and profits drop. Since oil drilling is not a new service, yet is continuing to grow exponentially, it is somewhat difficult to classify in a life cycle analysis. The most probable stage, though, would be the maturity stage, pointing to the competitive shakeout, as many companies begin to merge (Boyd, Mullins, Walker, 2008).

When considered within the U.S., oil drilling is a mature industry with many of the geographic regions and fields in the late stages of life. Yet, when considered globally, oil drilling is a mature industry that is still is increasing exponentially. Emerging economies with rising standards of living like China and India are demanding more energy. In fact, Chinese oil consumption is growing along with Chinese oil drilling, as an article in the *World Oil* publication cited them expanding into Canada (Snyder, 2005).

New technologies are also constantly driving growth in oil drilling. New ways to recover oil and gas or enhanced methods of refining crude oil are continually emerging, never allowing the industry to plateau.

The main areas of concern in regards to the transition of oil drilling into a declining phase are decreased demand as a result of alternate energy sources, as well as depletion of natural resources. A focus of the energy industry at this point is toward
alternate energy sources. Nuclear power, ethanol, and biodiesel are only a few of the substitutes that are on the horizon.

At this time, oil drilling is in the maturity stage, as depicted in Figure 1 below.

![Figure 1. Life Cycle Analysis for Oil](image)

**Figure 1. Life Cycle Analysis for Oil**

**Needs that Oil Production Fills**

Oil production primarily fulfills the world’s energy needs. It allows people freedoms and conveniences as well as drives the economies of industrialized or emerging nations.

Oil production also provides political security. As previously mentioned, oil can be considered synonymous with power in regards to politics. A country that can produce its own oil and thereby lessen the dependency on other oil producing and exporting countries will be more secure in the event of international political tensions.
Macro-trend Analysis

*Macroenvironment and microenvironment*

The marketing environment is made up of the microenvironment and the macroenvironment. The microenvironment consists of entities close to the company that affect its ability to serve its customers, such as suppliers or competitors. The macroenvironment consists of larger societal forces that affect the microenvironment, such as economic or political forces (Armstrong & Kotler, 2005). These are called macro-trends, and how a company responds to them is a key factor in whether it will survive or fail.

*Economic*

Cost can have a dramatic effect on drilling. As the cost of oil increases, so does the cash flow for drilling companies, thereby allowing companies to spend more on drilling activity (Berman, 2007).

Also, the new methods of oil recovery, although they are helping growth in oil production, are causing the unit cost of gasoline to rise. This means that high oil prices are actually needed to cover costs and keep oil drilling companies profitable (High prices needed, 2007).

Increased international investment is a recently important driver of drilling. With the increased interest in foreign drilling, international investment is pouring into countries, which is expanding the industry (Maksoud, 2007).

Although it may seem that increased oil prices would affect Transocean negatively, in actuality these high prices will benefit the company. The price of oil is inelastic. That is, a change in the price of oil will have a very small effect, if any, on
demand. The high prices, then, will increase the cash flow of oil companies. More money for oil companies means more business for oil drilling companies like Transocean, as the increased cash will most likely be used to finance new exploration projects.

*Substitutes*

With the increasing cost of oil, as well as an emphasis on environmental awareness and the possible depletion of the resources, effort has been made recently to find alternative energy sources.

Ethanol, a fuel usually derived from corn, is among the most prominent substitutes, most popularly mixed with gasoline and used for transportation purposes. Corn ethanol is already commercially produced and continuing to expand.

Biodiesel has similar properties to petroleum diesel, but can be produced from vegetable oils or animal fats. Biodiesel can be used in almost all diesel equipment and is compatible with most storage and distribution equipment. Although it is commercially available, biodiesel is still being developed.

Gas-to-liquid (GTL) alternatives are being produced from coal and biomass and are similar and virtually interchangeable with diesel fuels. Natural gas is also an alternative fuel that can be used as heavy duty compressed gas or as LNG in specialized vehicles. The market for GTL or LNG is small but growing. Advanced vehicle technologies such as hybrid vehicles, which use a combination of fuel and electricity, are also serving as a substitute for traditional fuel (GAO, 2007).

Currently, there is a lot of hype surrounding the idea of alternate forms of energy. Although these new energy sources are not far off, independence from oil is not. In the foreseeable future, oil will continue to be the primary source of the world’s energy,
though alternate forms may lessen demand to an extent. Also, these alternate forms of energy carry consequences themselves, as will be discussed later.

Natural

Of the natural demand shifters, none is more prominent to drilling than hurricanes. Hurricanes disrupt the flow of oil by requiring that rigs be shut down and workers evacuated. Hurricanes cost oil drilling companies money as well as slow recovery time because of damage to machinery and onshore infrastructure (Ward, 2007). Hurricanes are unavoidable threats that drilling companies will have to deal with. Increasing the strength of their rigs is almost the only defense they can have.

Environmental awareness is a prominent factor that shifts demand for oil. For example, drilling companies are beginning to experiment with organics such as zinc (Cornago, 2007). Also, there is increased awareness of the impact that oil drilling has on the natural environment. Some hold the view that drilling has such a negative impact on the environment that drilling activity should be decreased to a minimum and should occur in remote parts of the globe so as to have as little effect as possible.

Political Legal

Governments are increasingly posing health, safety, environmental, and technological regulations on drilling and drilling equipment (Cunningham, 2007). Although many of these regulations create positive changes in the industry, they also have the potential to slow growth, decrease profitability, and to instantly change the competitive landscape.

At this time, there is a ban in the U.S. on most domestic offshore drilling. Efforts have now been put in place to lift this ban in regards to drilling for natural gas and linking
it to renewable energy. The lifting of this ban would decrease the country’s dependency on foreign energy sources, thereby increasing national security (Kamalick, 2007). For instance, U.S. oil companies are restricted from drilling off of its coast in the Gulf of Mexico because of its own laws. Meanwhile, China has received rights from Cuba to begin drilling in the Gulf. Many are concerned by the fact that China is receiving the benefits of the oil that could easily belong to the U.S., yet cannot because of prohibitions (Gibson, 2006).

Even though the government has direct power over the activities of the oil industry, the oil industry indirectly has power over the government, as in the case of national security. Oil and world power are directly related. Oil is a necessary resource for all countries; therefore whoever holds the oil also holds the power.

*Technological*

Many technological advancements are closely related to natural demand shifters, as environmental awareness becomes increasingly important. For example, technologies have been developed that reduce hydrocarbon release into the atmosphere and improve drilling efficiency by using reverse circulation pipes (Fuh, Ramshaw, Freedman, Abdelmalek, Morita, 2007; Rach, 2007).

New technologies are changing the face of the oil drilling industry all together. Drilling for oil in deeper waters is becoming more a commonplace activity, with depths reaching more than 10,000 feet (Snyder, 2004). In order to adapt to these deep waters, companies are exploring new technological innovations, such as casing and tubing with increased strength to hold up under extreme water pressures (Schempf, 2007).
Some technological advancements are going to fundamentally change the process of oil drilling and logging as a rigless drilling tool is being tested. This tool is, “designed to drill into the subsurface and to perform logging operations without the need of a drilling rig or well construction. Instead, the patented probe is self burying, sealing the path behind it as it drills ahead to prevent any release of hydrocarbons to the surface” (Rigless drilling tool, 2007, ¶2). In fact, the trend is continuing to be focused toward submersible rig equipment as a result of rising costs of maintaining and powering drilling rigs (Sea Change, 2007).

Technology is an integral part of oil drilling. The research and development budgets of companies like Transocean must remain high if they want to remain ahead of competitors, or, at the very least, not fall behind.

Competitors of Transocean

Noble Corporation

Noble Corporation is a global provider of contract drilling services. According to Datamonitor, the company’s strengths include diversified operations. The Noble fleet is currently employed in a number of global markets. The diversified revenues from their global operations reduce their business risk. Another strength is Noble’s strong contract drilling operations. Noble is currently the leading provider of contract drilling services. Also, Noble’s core competency in technical capabilities is a key factor to their success (Datamonitor, 2007g).

GlobalSantaFe Corporation

Although at this time GSF is still considered a competitor, Transocean is in the process of a merger, and will therefore acquire these capabilities as their own. In the
recent past, GSF has experienced strong revenue growth, showing that the company has correct business fundamentals. Although not as large as Noble, GSF still has a strong global presence. GSF’s fleet is deployed in all major global offshore oil producing regions. This fleet is also diversified, adding another company strength. GSF owns jack-ups, submersibles, and ultra deepwater submersibles, all of which are equipped with many of the latest technologies. This allows the company to be able to drill in a multitude of environments.

Unfortunately for GSF, while their fleet is diversified, their customer base is not. The power of companies that contract with GSF to drill is strong, and a negative action by one of these companies could have negative effects on revenues.

Performance Review for Transocean

Transocean, a drilling company with global operations, provides offshore contract oil and gas well drilling services. The equipment it offers includes drill ships, jack-ups, and submersible rigs, and services include deepwater drilling, harsh environment drilling, inland and shallow water drilling, and offshore drilling (Transocean, 2007b). The company typically contracts out its offshore drilling assets to customers for a prescribed length of time at a prescribed day rate. According to Standard and Poor’s (S&P), Transocean is a leading provider of contract drilling services for the oil and gas industry, with the world’s largest fleet of mobile offshore drilling units, numbering 82. Transocean also has the largest floating rig driller fleet, with 53 semisubmersibles and drill ships, and is the largest deepwater drilling company with 29 deepwater rigs. Overall, according to equity and market capitalization, Transocean is the larger than any of its competitors.
Transocean’s mission statement says:

Our mission is to be the premier offshore drilling company providing worldwide rig-based, well-construction services to our customers through integration of motivated people, quality equipment and innovative technology, with a particular focus on technically demanding environments. (Transocean, 2007b, ¶1)

In order to reinforce the mission, Transocean manages and operates behind their core values of FIRST: Financial discipline; Integrity and honesty; Respect for employees, customers, and suppliers; Safety; Technical leadership (Transocean, 2007b). The company’s activities of recent years have given evidence of its commitment to this mission. Many acquisitions and strategic mergers have taken place, which have grown the company geographically as well as financially. Transocean has had its lowest recordable incident rate (RIR) of accidents in company history. The company has excelled at constructing oil and natural gas equipment in deep waters and harsh environments and currently focuses on deepwater drilling activities (4,500-10,000 ft) in the U.S. Gulf of Mexico, the North Sea, West Africa, Southeast Asia, the Mediterranean, the Caspian Sea, and the Middle East (Glickman, 2007). A brief history of Transocean as well as an observation and analysis of current activities will allow a better look at the identity of Transocean and its mission or focus.

In 1993, Sonat Offshore Drilling was formed. Three years later, in 1996, Sonat acquired Transocean, a Norwegian offshore drilling company, and subsequently changed its name. Transocean then merged with Sedco Forex Holdings in 1999 and changed its name to Transocean Sedco Forex. In 2001, Transocean Sedco Forex merged with R&B
Falcon Corporation. This merge included a segment of R&B Falcon named Gulf of Mexico Shallow and Inland Water, which were then renamed TODCO.

In 2002, the company name was returned to Transocean, and a year later the company acquired ConocoPhillips’ 50% interest in the joint venture Deep Water Drilling, which then became a wholly owned subsidiary of Transocean. In 2004, there was the float of TODCO, followed by a series of disposals to divest nonstrategic assets which included the semisubmersible rig Sedco 600 and the jack-up rig Transocean Jupiter. In February of 2006, Transocean received a 15-year contract from the Oil and Natural Gas Corporation of India for jack-up rigs, and in May, Repsol Exploracion of Brazil and Oilexco of Canada awarded contracts for three of the company’s semisubmersible rigs (Datamonitor, 2007k). Most recently, in July of 2007, the company and its rival GlobalSantaFe (GSF) announced plans to merge. According to Standard and Poor’s analysis, the growth potential from this merger far surpasses even an aggressive new strategy, in terms of scale, rig quality, and timeframe. The asset bases of both Transocean and GSF are complementary; GSF’s premium jack-ups will greatly enhance Transocean’s jack-up offerings, especially in West Africa and Northwest Europe where Transocean currently has little jack-up presence, but which are core regions for GSF (Glickman, 2007).

The chief executive officer (CEO) of the company since 2002 is Robert L. Long. He began at Transocean in 1976 as a Corporate Planning Manager and held many operational and financial roles since, ranging from Vice President to Senior Vice President to Chief Financial Officer to Treasurer. In addition to being director of the International Association of Drilling Contractors as well as the National Ocean Industries
Association, Mr. Long’s extensive and diverse experience within the company has and will continue to be an asset to Transocean.

Managerial excellence in recent years has allowed Transocean considerable growth even in the face of many obstacles and decreasing revenues in some markets. Overall, 2005 revenues of $2,891 million showed a 10% increase over 2004. The largest geographical market, the U.S., accounted for $647.7 million, or 22.4% of total revenues in 2005. This market, though large, experienced a substantial decrease of 24.3%, mostly as a result of tighter drilling restrictions. Transocean buffered that decrease with expansion in the U.K. where profits increased 60.6% to $335.4 million, or 11.6% of profits. Revenues from India increased 9.5% to $296.4 million, or 10.3% of profits. Brazil’s revenues decreased by about 4.6% to $265.3 million, or 9.2% of profits. Other countries accounted for 46.6% of profits, about $1,346.9 million, which was a 48.5% decrease. In coming years, Transocean will have to face the challenges in the decreasing markets, but currently return on stock is 64%, and Transocean was ranked 15th on the S&P 500 (Datamonitor, 2007k).

According to the CEO, the past year was a period of exceptional industry fundamentals, characterized by strong customer demand for mobile offshore drilling units, some shortages of rigs, especially among the most technically advanced, and record day rates. As of March 2006, Transocean has record contract backlog, meaning that many of their ships have been reserved past the end of the decade, enhancing prospects for continued financial performance. In 2005, the company realized the lowest total recordable incident rate in its history, at 1.06 per 200,000 hours worked. Transocean demonstrated technical leadership when its drill ship Discoverer Spirit set a new industry
record for the deepest offshore well ever drilled at 34,189 ft. measured depth for Chevron Corporation and its partners.

Looking into the future shows customers increasingly signing long-term contracts that secure rig availability for multiple years. The customer base is broadening, with greater activity from independents and national oil companies. Meanwhile, deepwater geologic results remain strong and global access to other areas is improving. The future does bring challenges as well. As the offshore drilling industry moves closer to full capacity, critical components of operations are increasing in cost. Also, increased hurricane activity in the Gulf of Mexico has caused insurance costs to rise. In coming years, Transocean will be managing a number of shipyard programs as rigs enter yards for reactivation, upgrades, and significant maintenance. Although the cost of these improvements will have a short payback period, the current expense will be great and will have significant effects on profits (Transocean, 2007a).

Key Issues and SWOT Analysis

SWOT

There are issues in the next year that Transocean will have to face. The company must take a look at its internal strengths and weaknesses, and take them into account when facing those issues. Following is a Strengths, Weaknesses, Opportunities, Threats (SWOT) analysis for Transocean, illustrated in Table 1, which are then related to the macroenvironment demand shifters (More strengths and weaknesses will be discussed in the Value Marketing section).
Table 1

**SWOT**

<table>
<thead>
<tr>
<th><strong>Strengths</strong></th>
<th><strong>Weaknesses</strong></th>
</tr>
</thead>
</table>
| • Strength and size make it able to sustain demand  
• Strong global presence  
• Strong environmental/natural programs  
• Strong political power  
• Deepwater drilling ships | • Declining revenues  
• Weak alternative fuel innovation |

<table>
<thead>
<tr>
<th><strong>Opportunities</strong></th>
<th><strong>Threats</strong></th>
</tr>
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</table>
| • Strong demand for drilling  
• Increased price/day rates | • Alternative fuels  
• Government overregulation  
• Natural disasters (i.e. hurricanes) |

**Economic—able to sustain demand, yet declining revenues**

Of the most pertinent economic opportunities is the high demand for crude oil and natural gas. Increased prices have accompanied the high demand, with records of nearly $80 a barrel in the summer of 2006. In spite of these prices, demand is still growing causing producers to seek expansion of their access to resources. As a result, drilling activity has soared both in the U.S. and globally, and cash flows have increased considerably (Glickman, 2007). Day rates for chartered offshore drilling rigs rose to about $300,000 a day, and Transocean reported a 93.4% increase in net income (Datamonitor, 2007k).

About one third of the world’s oil supply comes from offshore sources, so a large offshore fleet is vital to be able to keep up with demand and to succeed in the future of oil
drilling. As the largest offshore driller with 82 mobile offshore drilling units, Transocean is well positioned to sustain this growing demand (Transocean, 2007b). The company is not only able to profit from this increased demand for oil, but the depth of size and experience of Transocean has put the company in a place where it has the ability to make offensive moves to take this growth for itself and steal market share away from its competitors. Transocean is already prepared for an increase in global drilling activity with the strong global presence the company has attained in the U.S. Gulf of Mexico, Eastern Canada, Brazil, the U.K. and Norwegian sectors of the North Sea, West Africa, Asia, Australia, the Middle East, India, and the Mediterranean.

Although a strength of Transocean is that it is the most able to sustain this demand, it is weak in the sense that recent reports have shown declining revenues in key markets, specifically the U.S. and Brazil (Datamonitor, 2007k). The company must utilize the strength that it has in its market position to overcome the weak offensive moves it has been taking and capture this growth in demand for itself. Capacity expansion would possibly be a wise offensive move, as some have theorized that demand for refined petroleum products is increasing at a faster rate than incremental refining capacity (Vital, 2006).

*Substitutes—weak alternative fuel development programs*

Although demand is growing in spite of the high oil prices, these high prices as well as environmental concerns are causing increased interest in oil and gas substitutes. Unfortunately, Transocean has not been doing enough substantial development of alternative fuel production to have available research. Discussion with a former employee of GlobalSantaFe, which recently merged with Transocean, revealed that the company is
focused on trying to satisfy the current demand, which is leaving few resources for alternative fuel advancement (Turner, 2007). Although oil production is booming, it would be wise for the company to allocate funds to new product technology so that it will be able to compete in the coming years when alternative fuels begin to displace oil. The main three products that Transocean should probably focus on would be ethanol, biodiesel, and gas-to-liquid fuels. At this point, these are threats, but Transocean can turn them into opportunities.

Ethanol is a grain alcohol-based, alternative fuel made by fermenting plant sugars and production is well established. It can be made from many agricultural products and food wastes if they contain sugar, starch, or cellulose, which can then be fermented and distilled into ethanol. Ethanol is usually mixed with gasoline, and is estimated to cost about $1.07 per gallon by 2012. The federal government is currently involved in numerous efforts to develop ethanol, and several agencies are collaborating with the industry to accelerate and to reduce the costs of technologies, and to assist in developing the infrastructure.

Biodiesel is a renewable fuel that has similar properties to petroleum diesel, but can be made from vegetable oils and animal fats. Biodiesel is blended with gasoline and is currently produced and used as a transportation fuel around the world. The industry is small, but growing rapidly. Although biodiesel is commercially available, there are some areas where development is needed, “including quality, warranty coverage, and impact of air pollutant emissions and compatibility with advanced control systems” (p. 59). The cost competitiveness is also questionable.
The Fisher-Tropsch process converts feedstocks (e.g. coal, biomass) into syngas, which is then made into a fuel similar to diesel. This gas-to-liquid (GTL) alternative fuel can be used in place of diesel fuels, with lower toxicity. Production of GTL alternatives has been around for some time, yet it is only produced commercially in South Africa by Sasol Corporation. Deep research and development are currently being conducted to advance GTL fuels, as many consider them a plausible substitute for oil (GAO, 2007).

Natural—deep water drilling proficiency and strong environmental programs

Transocean is strong and positioned well in regards to natural demand shifters such as deep water and environmentally-safe drilling, and has positioned itself as well as possible against hurricane threats. In 2005, when hurricanes Ivan, Katrina, and Rita wreaked havoc in the Gulf of Mexico, the damage was significant. They damaged and destroyed infrastructure elements including offshore floating and fixed facilities, pipelines, pipeline terminals, and other onshore facilities and caused Transocean $39 million in damage (Datamonitor, 2007k; Ward, 2007). Hurricanes can be completely detrimental to an oil company, and are a threat that is impossible to eliminate. Transocean, though, has done the best possible to protect themselves from these natural disasters.

Transocean is the industry leader in deepwater drilling, which is speculated to offer higher growth potential in the future than will shallow water drilling (Glickman, 2007). The company holds 19 of the past 23 deepwater drilling records and holds the current world record of 10,011 feet in the Gulf of Mexico drilling for Chevron (Transocean, 2007b). The company focuses and excels in constructing oil and natural gas
wells in the deep waters and harsh environments, and has gained a competitive edge because of this.

In regards to environmentally safe operating, Transocean is taking an opportunity to improve an already strong policy with a new Environmental Management System (EMS) in 2007. The vision of the new EMS is, “To operate a standardized company Environmental Management System that meets the highest level of legislative regulation, drives continuous improvement and instills pride and ownership across all our installations, facilities and offices at all times” (Transocean, 2007c, ¶2).

The EMS cycle outlines the core elements of their system and goal always to seek feedback and continuous improvement in all their operations, illustrated in Figure 2.

![Environment Management System](image)

*Figure 2. Environment Management System (Transocean, 2007c).*
In regards to environmental research and programs, Transocean stated:

For many years, Transocean has been committed to supporting external research and we are advancing our contributions to global scientific programs. We operate in some of the world’s most diverse ecosystems, some of which are still little understood. Using our installations as a base for making recordings, observations and research platforms, we are contributing to the understanding of our marine environment. We aim to help increase access and awareness to the deep sea through our external collaborations. (Transocean, 2007c, ¶1)

The company strives to be environmentally friendly through the use of green products and evaluation is, “used as part of everyday business with a view to choosing products with a reduced environmental product.” Emphasis is also placed on recycling; “We track the waste we produce, log the levels we recycle and where possible track the waste to shore-based disposal sites or recycling plants” (Transocean, 2007c, ¶1).

Transocean has even constructed its own recycling system in Recycle The Gulf®:

Recyclables are removed from their waste stream, sorted and compacted on the rig. The compacted recyclables are then shipped to the rig's dock facility as are the compacted bags of waste. The bags of compacted recyclables are periodically delivered to Tech Oil Products. The recyclables are tracked so that each rig's contributions can be reported.
The recyclable commodities are donated to ARC of Iberia, a recycling center. ARC processes these recyclables at their recycling center to ready them for sale to the recycling plant.

(Transocean, 2007c, ¶2-3)

The company has also partnered with BP, Subsea 7 and the National Oceanography Centre, Southampton, U.K, in the SERPENT project.

Our role is to facilitate access to our installations, in collaboration with our clients, providing a scientific base to researchers within the SERPENT Project. These researchers then undertake a range of different projects from biodiversity assessment to the impacts of drilling to the assessment of new species, while we conduct normal operations.

Researchers are assisted by ROV (remotely operated vehicle) pilots working on our rigs in studying marine wildlife through the lens of cameras on the ROVs. (Transocean, 2007c, ¶1)

Transocean actively monitors the environment in which they work with marine mammal activity recordings, seabird movements, current speeds, temperature data and other species passing by. These efforts, among others, show that Transocean acutely understands the impacts of the natural demand shifters and are strong in that regard.

Political/Legal—oil gives Transocean strong political pull

The political/legal aspect of Transocean and the drilling industry is interesting. Because oil is the main energy source for the world, and therefore oil supply is synonymous with power in regards to politics, oil companies leverage power over
governments. Without oil companies, the U.S. would lose considerable influence in the developing world.

Yet, even though oil drillers play an important role and give governments power, they can still be controlled and bound by the power the government can wield over them. Examples would include barring companies from drilling in certain locations such as Cuba for political reasons, or the Gulf of Mexico for environmental reasons.

As of July 2007, members of Congress are pushing to end a quarter-century bar to offshore energy development. This law prohibits 85% of drilling in the U.S. outer continental shelf. Certain congressmen are lobbying to open more of the shorelines for gas drilling, which they link to renewable energy and therefore beg the support of environmentalists (Kamalick, 2007). This is just one example of how the government exercises its power over oil companies, but oil companies, in turn, have their power over the government. Overall, it can be speculated that because oil is so directly related to global power, oil companies have more influence over governments, yet with alternate fuel development continuing to grow, Transocean must continue to develop in that direction in order to continue to have this control if and when primary energy sources change.

Technological

Technology plays a primary role in the drilling industry and Transocean finds strength in technological advancement. Because oil drilling and the environment are intertwined, so are the technological and natural demand shifters.

Deepwater drilling is increasingly important for drilling companies, as there are believed to be more reserves and therefore is most profitable: Transocean is situating
itself to take advantage of it. In September of 2007, the company ordered a $740 million drillship to capitalize on the high rates for deepwater drilling, and will allow them to drill up to 10,000 feet. GlobalSantaFe’s chief executive Jon Marshall (2007) said, “The drillship order resulted from listening to our customers, assessing the growing need for deepwater capacity and combining the best features of our drillships and semi-submersibles” (GSF orders new drillship, ¶4).

There has also been a decrease in demand for jack-up rigs as a result of advancement for underwater exploration (Associated Press, 2007). This is an opportunity for Transocean to beat their competitors in the race to innovate. The company is already leading the industry with its deepwater ships Nautilus and Horizon, but more will be realized if Transocean continues to research new products and advance faster than its competitors.
Following is a table to illustrate how Transocean is positioned to deal with these key issues.

Table 2

*Transocean’s Key Issues Position*

<table>
<thead>
<tr>
<th>Strong</th>
<th>Extremely strong stand on environmental issues, and many programs put into place concerning natural resources</th>
<th>Has one of the strongest fleets in the world and is positioned as one of the deepest water drilling companies.</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Weak</td>
<td>High growth rates, and company can sustain, but must grow to keep up with demand.</td>
<td>Both controls and is controlled by political/legal</td>
<td></td>
</tr>
</tbody>
</table>

Marketing strategy

*Generic Level Business Strategy*

Transocean will maintain its competitive advantage in chartered oil drilling with a differentiation strategy which will develop customer opinions of outstanding quality, design, or service (Boyd, Mullins, Walker, 2008). Transocean will rest their differentiation on their superior rigs, especially in regards to deep-water drilling and their ability to withstand environmental threats like hurricanes.
Positioning Statement

A positioning statement is a succinct statement that identifies the target market for which the product is intended, the product category in which it competes, and the unique benefit the product offers (Boyd, et al., 2008). Transocean’s target market is the segment of the market it intends to serve. Therefore, the target market is that of all the oil companies, government and privately owned, that can afford the day rates of Transocean’s superior rigs and skill, looking to drill in deep waters. The product category in which Transocean competes is the chartered oil drilling services that it offers the oil companies. Transocean provides the equipment and drilling services for the oil companies that contract with it. Transocean is uniquely positioned against competitors with deep-water drilling proficiency.

Dissecting Transocean’s value offered will help devise an appropriate positioning statement, as in Figure 3.

Figure 3. Transocean’s Value Offered
Transocean’s proposed positioning statement is as follows:

“For the oil company who wants to drill in deep waters, Transocean is a contract oil drilling company that provides superior services, equipment, and deep-water drilling proficiency unlike competitors who mainly drilling in shallower waters.”

Product/Service Description

At this time, Transocean offers state-of-the-art rig equipment, along with superior exploration and drilling services, especially deep-water drilling, to government and privately owned oil companies.

Augmented product.

Products can be thought of on three levels. Primarily, there is the core service/benefit. This is what the buyer is actually buying. In this instance, the oil companies are buying rig equipment along with exploration and drilling services. The second level is how Transocean turns the core benefit into an actual product. This is its features and packaging. The company uses deep-water drilling proficiency and a first class fleet to provide their core product. The final level, which is the augmented product level, is built by offering additional customer services and benefits. For Transocean, this includes their contracts, which is a form of a warranty, and their environmentally friendly practices and services (Armstrong & Kotler, 2005). All of the factors that make up the augmented product are what makes Transocean’s services different, and more desirable, than competitors.
A Description of the Augmented Product/Service

*Core benefit.* The core benefit that Transocean offers to oil companies is oil exploration and drilling. Initially, the company begins its exploration phase by seismic data collection, where shock waves are sent out over an area of interest. The waves reflected by the structures on the ocean floor are interpreted, and if considered a favorable drilling spot, a test well is constructed which is an attempt to conclusively determine the presence of oil or gas. If the exploration phase successfully finds oil and gas reserves, a Transocean rig will begin drilling for the customer, such as Chevron, which has leased its services.

*Product features.* Compared to competitors, Transocean offers a proficiency in deep-water drilling. This is beneficial to the oil companies because deep-water drilling
has become increasingly profitable over drilling in shallow waters. In most areas, almost all of the oil and gas resources in shallow water have been depleted, making drilling in the deeper waters more attractive. Transocean has positioned itself for this shift in demand and many of the rigs offer deep-water drilling features.

Packaging. In a sense, Transocean’s product is packaged in the form of an excellent fleet of first class drilling rigs with exceptional capabilities. Of its own fleet, Transocean said:

Transocean’s rigs are known for stepping out to meet the most demanding offshore drilling challenges, including a world record measured depth well of 34,189 feet – or more than six miles – constructed by the Discoverer Spirit in the U.S. Gulf of Mexico in December 2005. This year, additional opportunities exist to enhance our industry-leading reputation for setting industry milestones at a time of continued strong rig demand (Transocean, 2007, ¶ 1).

Warranty. Transocean offers a warranty in the form of contracts with oil companies for extended periods of time. This reservation of oil and gas drilling services are Transocean’s guarantee to the oil company to drill for them as long as the contract specifies serves as the company’s warranty.

Extra services. In addition to all of the other offerings, Transocean offers drilling companies environmentally safe practices and strict environmental standards. This is of extreme importance to the oil companies. If anything goes wrong with oil drilling and exploration, oil companies automatically take the blame and are put in a negative light. Contracting with a drilling company with a strong environmental stand is essential.
Distribution channels/supply chain logistics

Distribution channel for oil. Figure 5 is the distribution channel for oil. The input, oil, is located in the ocean. An oil company will contract with a company that will seismically survey a tract of land that is of interest under the sea. The seismic ship drags equipment behind it that sets off explosions and acoustic equipment will listen to the returns to determine what is beneath the surface of the sea. The oil company then reads the reports, and if the reports are favorable, the company will lease that tract of land from the government. That gives the oil company the right to set up oil production facilities there, and bars other companies from that area.

![Diagram of oil distribution channel]

Figure 5. Oil Distribution Channel
Following is an example of an offshore oil lease map (Figure 6):

**Figure 6.** Current and Proposed Oil & Gas Leases on Alaska’s North Slope (The Wilderness Society, 2007)

The oil company then finds a rig and drilling company, such as Transocean, to drill a test well or an oil well. The oil drilling company accepts bids from different oil companies for their rigs, and the rig goes to the highest bidder. The rig is then transported to the desired drilling area. Sometimes, if oil is found, then the drilling company will drill test wells in the surrounding area for information on where more oil may be. If a producing well or field is found, the oil company will set up for production with a production rig. The production rig is usually owned and operated by the oil company, and
can sometimes be a production/drilling rig that drills “directionally,” horizontally underground from one spot.

Once the oil is extracted from the earth, it is transported to a refinery either by a pipeline or a tanker. After being refined into different kinds of fuels, the oil is then either sold to consumers by the oil company itself (e.g. Shell, British Petroleum) or sold to another company and then to consumers (e.g. 7 Eleven).

*Distribution channel for Transocean.* Figure 7 is the distribution channel for Transocean. Transocean first contracts with a rig builder to construct rigs for them. The company specifies to the builder exactly how the rig is to be built and what requirements it is to have. Transocean then receives bids for a certain rig from an oil company. The rig goes to the highest bidder, and then the rig is transported to the desired drilling area. Transportation is usually done by either a transportation company, in the case of jack-ups and some semisubmersibles, or Transocean, in the case of some semisubmersibles and drill ships, and is funded by the oil company. Maintenance is done internally by Transocean, but when a ship needs refurbishing the company contracts with a shipyard. The company will also contract with consulting companies, such as Moduspec, to help with the refurbishing process.

The drilling process is usually directed by managers of the oil company, and Transocean does for them what they ask. Ultimately, the final product, oil, is extracted from the earth and given to the oil company. It usually takes up to three years from the time a rig begins being constructed to the time Transocean begins drilling for oil.
Figure 7. Transocean’s Distribution Channel
**Integrated Marketing Communications Mix**

Table 3

**IMC Mix**

<table>
<thead>
<tr>
<th>Demand Shifter</th>
<th>Viral marketing</th>
<th>Advertising</th>
<th>Personal selling</th>
<th>Sales promotions</th>
<th>Public relations</th>
<th>Internet marketing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economics-booming</td>
<td>Require oil companies to advertise that they got oil thru Trans.</td>
<td>Make known advantages of oil over other forms of energy</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>demand for oil</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Substitutes-alternate forms of energy are becoming</td>
<td>Make known environmental benefits of drilling</td>
<td></td>
<td></td>
<td></td>
<td>Part of web site devoted to new product research</td>
<td></td>
</tr>
<tr>
<td>Natural-demand for more environmentally friendly processes</td>
<td>Make known environmental benefits of drilling</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Political/Legal-Government laws and regulations about oil drilling</td>
<td>Advertise breakthroughs in legal barriers</td>
<td></td>
<td></td>
<td>Give charitably to government programs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technological-Deepwater drilling has become the most profitable and is in the highest demand</td>
<td>Ads in oil magazines about Trans. competitive edge in deep-water drilling</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The ideas addressed in Table 3, the Integrated Marketing Communication mix (IMC), are either in regard to the oil companies to raise demand for Transocean’s drilling services, or in regard to consumers to raise demand for oil which in turn raises demand for Transocean’s drilling services. Emphasis is placed on advertising, because educating the public and encouraging them to support oil production is the most important marketing communications to keep demand for oil high, and advertising is be the best way to accomplish this.

*Economics--booming demand for oil*

In recent years, and as predicted for the future, demand for oil is higher than ever. For viral marketing, Transocean might require that the oil companies make known that they use Transocean drilling services to acquire their oil. This might be done through the use of stickers on gas pumps, or the labels on packaging of commercial oil. The high demand and sales will allow Transocean’s name to be widely seen and recognized.

*Substitutes--alternative forms of energy*

In the coming years, the threat of alternative energy sources may shift down the demand for oil. To educate consumers on the benefits of oil over other forms of energy, Transocean could advertise. For example, the company could make a commercial that shows consumers that even though the use of ethanol is widely thought of as more environmentally safe than oil, there are some unintended consequences that many have not thought through that increased ethanol use can cause. Transocean could make commercials outlining these consequences. First of all, the production of ethanol requires a massive amount of biomass. If American ethanol, made from corn, is widely used, the price of corn will skyrocket. The price of beef will also rise significantly because cows
are normally fed with corn products. If Brazilian ethanol is widely used, which is made from sugar, Brazilian rainforests will continue to be cut down to have room to grow the sugar. Educating consumers through advertisements in commercial and magazines, as well as articles in magazines like *News Week* will help keep demand for oil high, and in turn keep demand for Transocean’s product high.

For internet marketing, Transocean could also dedicate part of their webpage to updates on new product research and how they are innovating to make their operations more environmentally friendly and lessen the risks of harm to the natural world.

*Natural--demand for environmentally friendly processes*

To keep the oil consuming population’s high demand for oil, Transocean can advertise the environmental benefits that oil drilling can provide. It is known that in spite of the environmental risks, oil drilling can enhance the natural world. For example, in cold climates like Alaska, animals can be seen congregating around the drilling facilities because of the warmth that it provides. Under the sea, drilling facilities can act as a reef to house entire ecosystems. Today’s society does not seem to be sufficiently educated on the potential benefits that oil drilling has on the natural world. If society was educated on such, then demand for oil might rise even higher. Transocean could advertise this through different commercials on all television channels. News channels might receive a stronger focus because the subject matters usually found on channels like Fox News would be more closely related to the oil industry.
Also beneficial to Transocean would be marketing their strong environmental standards.

For many years, Transocean has been committed to supporting external research and we are advancing our contributions to global scientific programs. We operate in some of the world’s most diverse ecosystems, some of which are still little understood. Using our installations as a base for making recordings, observations and research platforms, we are contributing to the understanding of our marine environment. We aim to help increase access and awareness to the deep sea through our external collaborations. (Transocean, 2007c, ¶1)

This can be communicated through many means, but internet marketing would be one of the fastest and most flexible. Transocean can first ensure that their webpage, www.deepwater.com, communicates clearly the company’s commitment to environmental safety excellence.

Political legal—laws and regulations about oil drilling

Because government regulations play a vital role in oil drilling, addressing them in Transocean’s marketing is extremely important. For consumer purposes, Transocean should advertise all political and legal breakthroughs in regard to oil drilling and production in order to raise demand for oil. This should be done through television commercials and, similar to the environmental benefits of drilling, focused on news channels such as Fox News.

Advertising should also be used to emphasize the fact that increased domestic drilling lessens U.S. dependence on foreign countries for oil. Advertisements may
encourage people to vote for increased domestic drilling or to support candidates that will. The U.S. present political state is a hot topic, so Transocean should consider using it to the company’s advantage.

Public relations (PR) can also be useful to Transocean in regards to the government. PR can include charitable contributions. Transocean can give charitably to environment development programs in order to put the company in a positive light, but being careful that the contribution does not look like a bribe.

*Technological--High demand and profitability of deep water drilling*

Current trends in the oil industry have seen a shift from drilling in shallow waters with jack-up rigs to drilling in record deep waters using semisubmersibles. The company is leading the industry with its deepwater ships Nautilus and Horizon, and rests their competitive advantage over other companies on their deep water equipment and experience. This is the most important demand shifter for Transocean to market.

The company should heavily advertise their services in magazines that are read by industry managers and leaders. Magazines to consider might be *Offshore Magazine*, *World Oil*, or *RIGZONE*. These publications are widely read in the drilling and oil production industry, and therefore Transocean’s presence in them is essential to increase brand awareness and market presence.

Internet marketing would also be beneficial for the company. Examples would be banner ads on the websites of *Offshore Magazine*, *World Oil*, and *RIGZONE* emphasizing Transocean’s deep water specialization.
Marketing Plan

Market segmentation

Market segmentation is a way of dividing the market into subsets of customers with desires and traits which cause them to react in a similar fashion to a product or marketing program. Target marketing is the process of choosing the most attractive segment of the market which the company is capable of serving (Boyd et al., 2008).

The oil industry should be segmented by either geographic areas or companies according to size and purchasing power. In regards to geographic areas, Europe generates 37.4% of the global market revenue, with America following at 32.5%, and Asia lastly with 30.10%.

Oil market segmented by geography

![Geographical Segmentation](image)

*Figure 8. Geographical Segmentation (Datamonitor, 2007f).*

In regards to segmenting by companies, ExxonMobile is the world’s largest oil company with revenues of $377,635 million during the fiscal year ended December 2006, with an operating profit of $67,402 million. The net profit was $39,500 million in fiscal
year 2006. At the end of fiscal 2006, the company had interests in 40 refineries in 20 countries, with distillation capacity of 6.4 million barrels per day and lubricant basestock manufacturing capacity of 150 thousand barrels per day. During 2006, Exxon Mobil’s refinery output was 5.6 million barrels per day (Datamonitor, 2007d).

The next largest oil company, British Petroleum (BP), is in over 100 different countries operating for about 13 million customers. The company produced about 7.550 million barrels of oil in 2005 (Datamonitor, 2007b).

Table 4

*Key Financials: BP*

<table>
<thead>
<tr>
<th>Metric</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>178,721.0</td>
<td>232,571.0</td>
<td>194,919.0</td>
<td>243,948.0</td>
<td>270,602.0</td>
</tr>
<tr>
<td>Net Income</td>
<td>6,922.0</td>
<td>10,437.0</td>
<td>17,282.0</td>
<td>22,632.0</td>
<td>22,286.0</td>
</tr>
<tr>
<td>Profit Margin</td>
<td>3.9%</td>
<td>4.5%</td>
<td>8.9%</td>
<td>9.3%</td>
<td>8.2%</td>
</tr>
<tr>
<td>Total Assets</td>
<td>159,125.0</td>
<td>177,572.0</td>
<td>194,630.0</td>
<td>206,914.0</td>
<td>217,601.0</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>159,125.0</td>
<td>102,227.0</td>
<td>116,395.0</td>
<td>126,149.0</td>
<td>132,136.0</td>
</tr>
<tr>
<td>Employees</td>
<td>115,250</td>
<td>103,700</td>
<td>102,900</td>
<td>96,200</td>
<td>97,000</td>
</tr>
</tbody>
</table>

(Source: Datamonitor)

Shell Oil Company, a subsidiary of Royal Dutch Shell, follows as the third largest oil company. The Shell companies operating in the U.S. include Shell Chemicals, Shell Exploration & Production, Shell Oil Products U.S., Shell Gas & Power Motiva enterprises and several joint ventures and alliances.
Table 5

*Key Financials: Royal Dutch Shell*

<table>
<thead>
<tr>
<th>Metric</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>163,453.0</td>
<td>198,362.0</td>
<td>266,386.0</td>
<td>306,731.0</td>
<td>318,845.0</td>
</tr>
<tr>
<td>Net Income</td>
<td>9,484.0</td>
<td>12,042.0</td>
<td>18,540.0</td>
<td>25,311.0</td>
<td>25,442.0</td>
</tr>
<tr>
<td>Profit Margin</td>
<td>5.8%</td>
<td>6.1%</td>
<td>7.0%</td>
<td>8.3%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Total Assets</td>
<td>145,987.0</td>
<td>158,417.0</td>
<td>187,446.0</td>
<td>219,516.0</td>
<td>235,276.0</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>62,462.0</td>
<td>64,033.0</td>
<td>96,063.0</td>
<td>121,592.0</td>
<td>120,331.0</td>
</tr>
<tr>
<td>Employees</td>
<td>111,000</td>
<td>119,000</td>
<td>113,000</td>
<td>109,000</td>
<td>108,000</td>
</tr>
</tbody>
</table>

Source: Datamonitor

(Datamonitor, 2007j)

Chevron primarily operates in the U.S. and 180 other countries and one of the largest integrated energy companies in the U.S.

Table 6

*Key Financials: Chevron*

<table>
<thead>
<tr>
<th>Metric</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>99,049.0</td>
<td>121,277.0</td>
<td>155,300.0</td>
<td>198,200.0</td>
<td>210,118.0</td>
</tr>
<tr>
<td>Net Income</td>
<td>1,132.0</td>
<td>7,230.0</td>
<td>13,328.0</td>
<td>14,099.0</td>
<td>17,138.0</td>
</tr>
<tr>
<td>Profit Margin</td>
<td>1.1%</td>
<td>6.0%</td>
<td>8.6%</td>
<td>7.1%</td>
<td>8.2%</td>
</tr>
<tr>
<td>Total Assets</td>
<td>77,359.0</td>
<td>81,470.0</td>
<td>93,208.0</td>
<td>125,833.0</td>
<td>132,628.0</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>45,755.0</td>
<td>45,175.0</td>
<td>47,978.0</td>
<td>63,157.0</td>
<td>63,893.0</td>
</tr>
<tr>
<td>Employees</td>
<td>53,014</td>
<td>50,582</td>
<td>47,265</td>
<td>53,440</td>
<td>55,882</td>
</tr>
</tbody>
</table>

Source: Datamonitor

(Datamonitor, 2007f)
Pemex is Mexico's state-owned, nationalized petroleum company. The company primarily operates in Mexico. The company recorded revenues of MXN1,132.2 million (approximately $104 billion) during the fiscal year ended December 2006, an increase of 15.7% over 2005 (Datamonitor, 2007h).

Petrobras, a state-owned oil company of Brazil, recorded revenues of $93,893 million during the year ended December 2006, an increase of 26.8% over 2005. Petrobras generates revenues through five business divisions: supply (47.3% of the total revenues during fiscal year 2005), exploration and production (29.2%), distribution (15.2%), international (5%) and gas and energy (3.3%) (Datamonitor, 2007i).

BHP Billiton, an Australian company, is the world’s largest resources group with principle business lines in mineral exploration and production. The group offers diversified resources with a substantial interest in oil, gas, liquefied natural gas (LNG). BHP recorded revenues of $32,153 million during the fiscal year ended June 2006, an increase of 20.3% over 2005 (Datamonitor, 2007a).

CNOOC, the Chinese National Oil Company, is China's largest producer of offshore crude oil and natural gas. The company recorded revenues of CNY 88,947.3 million (approximately $11,407.5 million) during the fiscal year ending December 2006, an increase of 28.1% over 2005 (Datamonitor, 2007c).

The target market for Transocean is the set of all the largest oil companies with extremely high revenues, and that can afford high day rates associated with Transocean’s superior equipment and drilling specialization, such as those previously outlined, and with interests in deepwater drilling. Smaller oil companies with less revenue generally focus production on jack-up rigs in shallower waters.
Quantifying the Target Market

Offshore drilling and production are especially dominated by major oil companies. In 1992, the 20 largest oil companies accounted for 75 percent of all offshore capital expenditures (Friedman, 1992).

Of the nation's 18,491 mining companies recorded in the 2002 Economic Census, one-third (6,532) are involved in oil and gas extraction. These companies operate 7,730 establishments, most in Texas, which has 2,990 establishments, more than double the total in number two Oklahoma (U.S. Census Bureau, 2002).

Upstream production is the exploration and drilling phase. Following is a chart that outlines the geographic drilling areas by numerical performance.

Table 7

Global Upstream Performance

<table>
<thead>
<tr>
<th>REGION</th>
<th>3-YEAR FNDNG &amp; DVLPMNT COSTS† ($/BOE)</th>
<th>RECYCLE RATIO**</th>
<th>3-YEAR RPRCMNT COSTS† ($/BOE)</th>
<th>ORGNIC RPRCMNT† (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>AVG.</td>
<td>AVG.</td>
<td>AVG.</td>
<td>AVG.</td>
</tr>
<tr>
<td>Africa/Middle East</td>
<td>14.47</td>
<td>7.80</td>
<td>2.47</td>
<td>2.61</td>
</tr>
<tr>
<td>Latin America</td>
<td>20.35</td>
<td>10.51</td>
<td>0.64</td>
<td>1.17</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>7.50</td>
<td>6.39</td>
<td>4.01</td>
<td>3.35</td>
</tr>
<tr>
<td>Canada</td>
<td>8.17</td>
<td>10.80</td>
<td>2.89</td>
<td>2.25</td>
</tr>
<tr>
<td>United States</td>
<td>12.27</td>
<td>11.20</td>
<td>2.49</td>
<td>2.21</td>
</tr>
<tr>
<td>Europe</td>
<td>12.18</td>
<td>11.51</td>
<td>2.42</td>
<td>2.36</td>
</tr>
<tr>
<td>Worldwide</td>
<td>7.35</td>
<td>6.82</td>
<td>2.83</td>
<td>2.99</td>
</tr>
</tbody>
</table>

F&D: Exploration & production. *F&D costs incurred (total costs incurred minus proved acquisition costs) divided by oil and gas additions (oil and gas revisions plus extensions and discoveries plus improved recoveries). **Recovery ratio represents netback of oil and gas (revenues less production and transportation costs, before S&EA) divided by reserve replacement costs. *RRP: Total costs incurred (exploration plus development plus proved and unproved acquisitions) divided by oil and gas additions (revisions plus extensions and discoveries plus improved recovery plus purchases). **RRP represents oil and gas revisions plus extensions and discoveries plus improved recovery, divided by total production.

Source: John S. Herold Inc.

(Vital, 2006b).
Specific Actions Regarding the 4 Ps

Figure 9. The 4 Ps

Product

Transocean will continue to offer a wide variety of oil drilling equipment, with the world’s largest mobile and most versatile offshore drilling fleet. As of March 2006, the company fully and partially owned 89 mobile offshore and barge drilling units. The fleet is made up of 32 high-specification drillships and semisubmersibles, 23 floaters, 25 jack-up rigs and 9 other rigs. It principally uses three types of drilling rigs: drill ships, semi submersibles, and jack-ups. The company also operates drill rigs, tenders, a mobile offshore production unit and platform drilling rig (Datamonitor, 2007k).

“Transocean’s distinguished history includes industry-leading performance across the spectrum of offshore drilling. From world
water-depth and well-depth drilling records to facilitating revolutionary subsea completions, Transocean has specialized in providing solutions for clients’ drilling programs with rigs that truly stand out” (Transocean, 2007b).

Most consider the company’s mobile offshore drilling fleet to be one of the most varied and advanced. Transocean drills in some of the most technologically demanding sectors of the industry; specifically in severe environments and deep waters. The company's strong drilling fleet gives it a competitive advantage (Datamonitor, 2007k).

The design aspect of the product is similar to quality. Transocean’s equipment and service are designed for deep-water drilling specialization.

Transocean specialty in technologically demanding divisions of offshore drilling, with its rigs are equipped for a particular focus on deepwater and harsh environment drilling services, means that the rigs feature stronger and more stable construction, extremely deep and strong drills, and larger casing and tubing.

Transocean’s product is packaged in the form of an excellent fleet of first class drilling rigs with exceptional capabilities. Of its own fleet, Transocean said:

Transocean’s rigs are known for stepping out to meet the most demanding offshore drilling challenges, including a world record measured depth well of 34,189 feet – or more than six miles – constructed by the Discoverer Spirit in the U.S. Gulf of Mexico in December 2005. This year, additional opportunities exist to enhance our industry-leading reputation for setting industry milestones at a time of continued strong rig demand (Transocean, 2007a).
Transocean offers drilling companies environmentally safe practices and strict environmental standards as services. This is of extreme importance to the oil companies. If anything goes wrong with oil drilling and exploration, oil companies automatically take the blame and are put in a negative light. Contracting with a drilling company with a strong environmental stand is essential. Transocean will continue to uphold their new Environmental Management System (EMS). The vision of the new EMS is:

To operate a standardized company Environmental Management System that meets the highest level of legislative regulation, drives continuous improvement and instills pride and ownership across all our installations, facilities and offices at all times. (Transocean, 2007c, ¶2).

Price

In regards to price, Transocean will charge a minimum of $300,000 per day on jack-up rigs in shallow waters. The median price will be around $450,000 per day for semi submersibles and drill ships in deep waters. Prices will increase to about $600,000 per day for extreme deep waters and environments.

These prices are estimates; the actual prices will vary according to the specifications in the contracts with the oil company.

Place

This is the distribution channel for Transocean. Transocean will first contract with a rig builder to construct rigs for them. The company will specify to the builder exactly how the rig is to be built and what requirements it is to have. Transocean will then receive bids for a certain rig from an oil company. The rig will go to the highest bidder,
and then the rig is transported to the desired drilling area. Transportation is usually done by either a transportation company, in the case of jack-ups and some semisubmersibles, or Transocean, in the case of some semisubmersibles and drill ships, and is funded by the oil company. Maintenance will be done internally by Transocean, but when a ship needs refurbishing, the company will contract with a ship yard. The company will also contract with consulting companies, like Moduspec, to help with the refurbishing process.

The drilling process is usually directed by managers of the oil company, and Transocean will do for them what they ask. Ultimately, the final product, oil, will be extracted from the earth and given to the oil company. As previously stated, it will take approximately three years from the time a rig begins being constructed to the time Transocean begins drilling for oil.

Figure 10. Proposed Distribution Channel
Distribution centers. The distribution centers are the leased areas of the ocean that the oil company specifies. If seismic survey reports are favorable, an oil company will lease a tract of land from the government and then contract with Transocean to drill for them. The specified area of land in the ocean is the distribution center where Transocean will provide the service.

Locations. Transocean's fleet is currently located in the U.S. Gulf of Mexico, Canada, Trinidad, North Europe, Brazil, the Mediterranean and Middle East, the Caspian Sea, India, Asia, Australia, and Africa (Datamonitor/Transocean, 2007). As more opportunities arise, and more legal barriers are removed, Transocean will expand into the areas specified by the oil companies that offer deep-water oil and gas.

Logistics. The rigs are constructed by contracted rig builders. They are then transported to the specified drilling area either by the rig itself, if it is a specialized semisubmersible or a drillship, or by a contracted transportation company if it is a regular semisubmersible or jack-up rig. Contracted transportation is either done by a dry tow where a crane is used to lift the drilling equipment onto a transportation ship, or a wet tow, where the transportation ship will partially sink itself into the ocean, and then rises again with the drilling equipment on top of it.

Materials are brought to the rig either via ship transport or air transport. Helicopters generally bring the employees. Maintenance is done by Transocean while the ship is on location, but sometimes the rig needs refurbishing, in which case it is transported to a ship yard.

Promotion

Promotion was discussed in depth in the IMC mix above.
Value Marketing

In this value chain, Transocean is evaluated in regard to a specific threat. That threat is then evaluated to see what opportunity is provided for Transocean to increase the company’s value to its customers. If this opportunity does not increase the value of Transocean’s services to customers, then it should not be pursued.

According to a former employee of GlobalSantaFe, a contract oil drilling company’s customers most highly value efficiency. There are many facets of the service that can contribute to efficiency. Examples would be safety, environmental regulation compliance, or experienced personnel (Turner, 2008). The following paragraphs will explore the different ways that Transocean can increase efficiency, and therefore increase value, to the customer.

Figure 11. Opportunity Value Chain (Young, 2008)

Transocean is a contract drilling company that solely is involved in drilling for oil. Although demand for oil drilling services is extremely high, many oil companies are beginning in experiment with alternate energy sources. For example, Chevron has lately
partnered with a new Silicon Valley company to experiment with fuel production from algae. In fact, some oil companies are beginning to view themselves as ‘energy companies’ (Baker, 2008). This threat of decreased demand for oil drilling services gives Transocean the opportunity to begin experimenting with alternate energy sources itself. This service would offer oil companies efficiency, as Transocean will provide services much in the same respect as it does now; it will save time and money for the oil companies by providing services better and cheaper than they can on their own. For instance, Transocean might begin to cultivate or collect the different forms of biomass for fuel (e.g. corn, sugar, etc.) The company would have to search internationally for biomass, as different forms are more prominent in different countries; sugar is more prominent in Brazil, whereas corn is more prominent in the US. The company might also consider providing facilities and services to mix gasoline with biomass to produce different biofuels. Taking such steps would require Transocean to begin involving itself in a completely different sector of the industry, but as Transocean’s customers begin to see themselves as ‘energy companies’ and shift to other sectors, Transocean must follow if the company wishes to maintain its customer base.
Another threat to Transocean is the increased price of deepwater offshore drilling. This increased price is unavoidable considering the equipment and expertise needed, but Transocean may try to reposition themselves as a best-cost provider, rather than high-cost, by providing more services and add-ons. This way, Transocean will take the opportunity to become an all-in-one provider, offering efficiency to oil companies because they will be getting more done having to contract with fewer companies. For example, Transocean could provide seismic survey services, or provide the geologists to evaluate the results of these surveys. The company also may consider providing the transportation of crude oil to refineries for its customers. This would involve the acquisition of tankers and barges, and personnel to operate equipment.
Figure 13. All-In-One Value Chain

Increasing environmental regulations are also a threat to Transocean. Oil drilling rigs use diesel, which causes pollution. This threat gives Transocean the opportunity to provide exceptionally environmentally friendly and environmentally developing services. Efficiency would be provided to oil companies because they would be complying with all environmental regulations and the oil company would not have to deal with legal issues.
Figure 14. Environmentally Friendly Value Chain

In a technologically challenging industry that requires expert personnel, Transocean faces the threat of losing employees that are in high demand to other companies. Without an experienced and skilled work force, Transocean cannot efficiently provide their service. The company then has an opportunity to become an employee friendly company, with a company culture that exhibits care and concern for its workers and rewards them for their work. Ways to achieve this may include a pay system of incentives that will reward employees for their good work. Especially important is listening to employee suggestions and desires. Making employees feel cared for and appreciated for their services will help to retain an exceptionally competent staff that will provide outstanding and efficient services. This may include business class tickets for employee travel, stock matching programs, or excellent benefits.
Figure 15. Employee Friendly Value Chain

Controls

What If Performance Falls?

Control issues result because of using intermediaries and giving them some control over the marketing of a product. Some intermediaries take more control than others; the company should keep as much control as possible (Armstrong, 2005).
If performance falls below projected profit, then Transocean will identify exactly what is shifting demand for their services down, where the strategy is falling short, and then respond directly to that demand shifter with already existing strengths or by creating new strengths. Transocean’s contingency plan will not include withdrawal, harvesting, or lowering prices. If profits fall, the company will continue to innovate beyond the industry, regain, and then increase their profits.

Internal Changes that Could Cause Failure

One internal occurrence that could cause failure would be a management mistake in regards to forecasting. According to the Harvard Business Review (Kahneman, Lovallo, 2003), managers have a tendency to make overly optimistic forecasts when analyzing proposals for major investments as a result of seeking out information that supports an existing instinct or point of view, while ignoring information that contradicts

<table>
<thead>
<tr>
<th>What needs controlled?</th>
<th>Why?</th>
<th>Outcomes?</th>
<th>How can it be controlled?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Maintenance</td>
<td>1. Transocean must be sure that their rigs are in proper order, to Transocean’s standards</td>
<td>1. Ships with higher quality, satisfied customers</td>
<td>1. Provide own maintenance team</td>
</tr>
<tr>
<td>2. Transportation</td>
<td>2. Rigs must be transported to the correct spot and efficiently</td>
<td>2. Higher efficiency, more careful transport</td>
<td>2. Build more drilling ships and semi-submersibles that have their own transportation</td>
</tr>
<tr>
<td>3. Environment protection processes</td>
<td>3. Transocean can market them as their own</td>
<td>3. Improves reputation</td>
<td>3. Cultivate unique programs and new ideas</td>
</tr>
<tr>
<td>4. Construction/ refurbishing of rigs</td>
<td>4. Transocean must be sure that rigs are being constructed to specification and with deep water capabilities</td>
<td>4. Higher quality rigs, better able to weather the elements</td>
<td>4. Regularly inspect the construction/refurbishing process</td>
</tr>
<tr>
<td>5. Seismic surveys/forecasts</td>
<td>5. In order to forecast accurately and not drill in places without oil</td>
<td>5. More efficient, better treatment of environment by drilling in correct places with few test wells rather than many</td>
<td>5. Have Transocean employees work with seismic companies, consider getting involved in seismic exploration as well</td>
</tr>
</tbody>
</table>

One internal occurrence that could cause failure would be a management mistake in regards to forecasting. According to the Harvard Business Review (Kahneman, Lovallo, 2003), managers have a tendency to make overly optimistic forecasts when analyzing proposals for major investments as a result of seeking out information that supports an existing instinct or point of view, while ignoring information that contradicts
it. If Transocean’s managers forecast demand for their services too optimistically and overspend on expenses like refurbishing rigs in ship yards for extended periods of time, profits could fall dramatically or even be negative.

As evidenced by Shell’s oil reserve scandal in 2004, poor human resource development can lead to a myriad of internal problems. In 2004, Shell admitted that it had overstated its oil reserves as a result of HR’s poor role (O’Reilly, 2005). Without employees, a company cannot survive. Therefore, fostering a positive, ethical environment will encourage meeting stretch goals and quality work.

The most detrimental internal occurrence that could cause failure would be management’s poor strategic decisions. Leading inconsistently, and making decisions that do not go along with the chosen strategy is a recipe for failure (Finkelstein, 2005). If Transocean’s management lost the focus and strategic vision for the company, Transocean would not survive.

*External Threats/Opportunities Likely in the Next Year*

There are some external opportunities and threats that are likely to materialize in the next year or years, along with a contingency plan of how to deal with them. If demand for even stricter environmental programs is causing a loss to Transocean’s profitability, the company will reconstruct a new environmental management system that will promote even more nature-protecting standards and programs, and then increase awareness through marketing. Transocean also can consider going a step further than environmental protection programs with environment development programs, such as for the Dead Zone in the Gulf of Mexico. The Gulf of Mexico Dead Zone is a large area of the water with little oxygen, incapable of supporting life. This is caused by the nitrogen
and phosphorus nutrients that farmers around the Gulf use to grow their plants. Smaller streams and rivers then empty the nitrogen and phosphorus nutrient laden waters into the Mississippi River, which flows into the Gulf. The fresh water from the river then floats on top of the salt water in the Gulf, restricting oxygen from getting into the deeper water. The lack of oxygen causes all organisms to die (Science Museum of Minnesota, 2007). Because Transocean has a vested interest in the Gulf of Mexico and spends time drilling there, it would be beneficial for consumers to see Transocean giving back to it.

If competitors begin to emulate Transocean’s deep water drilling distinctive competence and begin to steal market share away, then Transocean will allocate more resources into research and development to innovate beyond its competitors. The company may also consider integrating backward (providing the services of other companies itself) in regards to seismic exploration. If Transocean can include that in their services, and the oil company does not have to contract with seismic survey companies in addition to exploration companies, Transocean will gain another competitive edge.

Because politics plays a strong role in the demand for oil, different government regulations restricting oil drilling in the U.S. could greatly decrease Transocean’s profits from domestic drilling. If that happens, Transocean will need to transfer many resources to foreign oil exploration, and will have to invest more funds into transportation of their rigs to other global oil fields. This is currently happening in the industry, and many of Transocean’s assets are now located in countries outside the U.S. Tighter restrictions concerning drilling in the Gulf of Mexico have forced oil companies to transfer drilling, which is a contributing factor to Transocean’s domestic revenues decreasing in the past year.
If Transocean’s profitability falls because of threats from substitutes, then Transocean will have to market the benefits of oil above those of alternative fuels. If it seems as if alternative fueling is going to be a concrete energy source, then Transocean will invest more into new product research to bolster their market share.
References


