

# ***PURCHASE MARKETING IN THE OIL & GAS INDUSTRY: THE CASE OF SONATRACH JOINT VENTURES***

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**Abstract:** This paper focuses on purchase marketing with an identification of key success factors in the Algerian oil and gas sector by providing empirical evidence on a selected sample of SONATRACH joint ventures with foreign counterparts. The paper starts with a critical analysis of current literature review on B2B marketing and purchase marketing subsequently followed by a presentation of special features of the oil and gas sector with highlights of the importance of purchasing in this context.

Finally, the paper identifies critical factors to the success of purchase marketing within SONATRACH's joint ventures with special attention to: customer-supplier relationships, e-procurement, contracting procedures, category purchasing, quality of specifications, project planning, management support as well as multidisciplinary skills of purchasing staff.

**Key words:** Purchase marketing, purchasing, buying centre, extended enterprise, e-procurement, customer-supplier relationship, specifications.

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## **Introduction**

Business to Business marketing or commonly referred to as B2B Marketing is defined *as the creation and management of mutual benefit relationships between organizational suppliers or providers and organizational buyers*<sup>1</sup> (MORRIS, PITT, HONEYCUTT, 2001). In the past, purchasing was cut-off in the commercial activity of a company that consisted of just being able to buy and sell. Today, purchasing is taking an increasingly prominent role inside concerns of managers and its strategic dimension is widely recognized. Purchasing is therefore booming, gone from the administrative approach of cutting orders, to a negotiating perspective based on a technical and competitive selection of suppliers taking into account the total cost of acquisition instead of the simple transactional cost, in order to build a real purchase Marketing.

The combination of marketing and purchasing terms is no longer surprising as similarities between the two functions have been extensively highlighted through the multiple stages of development of these concepts. Introduced in the early 1970s, purchase marketing has been subject of many published writings. It refers to purchases activities intended to

identify potential suppliers and to target long-term collaboration opportunities with partners. These activities must be part of an approach combining buyers' relationships with end-users of their own companies (internal approach) and the set of actions to be undertaken in the upstream market (external approach). Some researchers have even presented purchase marketing as a synergy between purchasing and relationship marketing. The purchase marketing approach allows buyers to not only accommodate their needs to the vendors market, but also to influence it so that it fits the specifications sought by the company. Thus, purchase marketing enables better control of supply risks. That said, this approach is probably determined by factors ensuring its success. These factors can be numerous and can evolve over time and space.

We will identify in this paper the main key success factors of purchase Marketing in a specific area; that of the Oil & Gas. This sector is characterized mainly by its downstream instability, where supply and prices are often influenced by political and geo-strategic concerns rather than commercial. This characteristic makes upstream activity ultra-important in this area, in fact, at similar sale prices, competitiveness depends on the ability to lower production costs, leading companies to focus on their core business and to outsource. This results in an increase of the importance of procurement in the overall turnover, and pushes petroleum companies to emphasize their efforts on purchase marketing, which becomes therefore an acknowledged performance lever.

### **B2B Marketing**

B2B remains to some students a secondary notion which moves into the background behind the consumer marketing. Still, B2B marketing is an appealing field of study even if readers may be more familiar with business to consumer. Structured academic and professional interest in the field of B2B Marketing is relatively recent compared to the consumer marketing, the latter having long taken the lead. Some authors<sup>2</sup> to exemplify this situation have described the place taken in the past by B2B marketing as the back seat of a car (MORRIS, PITT, HONEYCUTT, 2001). This relegation to the background began to diminish in the 1970s with the first research works on B2B Marketing, led by some academic journals such as *"the Journal of Business & Industrial Marketing"* published by Emerald Group Publishing and *"the Journal of B2B Marketing"* published by Taylor & Francis Group. With the publishing of the IMP Group researchers, especially Hakan HAKANNSSON in 1982<sup>3</sup>, an entire fresh reading of B2B marketing was born through which the centre of attention was the business exchange between firms as an interaction linking evenly dynamic economic corporations, in which

information and community interrelation happen together with pecuniary and physical exchange. Following works scrutinized the larger background of relationships<sup>4</sup> and dissected the set of connections that would compose the overall exchange scheme<sup>5</sup> (EASTON, AXELSSON, 1992).

Nowadays, the large dimension taken by B2B Marketing is indisputable. Financially speaking, over two thirds of world trade is generated in B2B value-added activities<sup>6</sup> (WRIGHT, 2004). Taken as a whole, the marketing of products and services between businesses is not the same as business to consumer marketing, since there are numerous radically distinctive characteristics and contrasting marketing strategies required to satisfy the specific expectations of business customers. The most important characteristics of B2B Marketing are listed as follows:

***Reduced number of potential buyers:*** B2B marketing professionals generally deal with notably fewer buyers than do business to consumer marketers. Markets are therefore more fiercely competitive, and the small number of buyers results in a reduced customer's base with a determining concern of the customer-supplier relationship, being utterly important in such a small sphere of business actors.

***Group decision making:*** Purchasing in B2B, on the contrary of consumer marketing, is completed passing through numerous formal steps, involving a certain number of approvals and decisions to be made by many people within the company. This particular structuring is called buying centre or decision making unit (DMU). This makes decision cycles longer than in consumer buying.

***Strong mutual involvement between suppliers and customers:*** due to the interdependency which marks the relationships between suppliers and customers in the B2B areas, dictated in particular by the double notions of channel and derived demand; a well-built mutual involvement commonly arises between partners in the market. As a result, efforts to retain loyalty are reasonably more intensive than in sectors of fast moving consumer goods (FCMG) for example. It was found that the average duration of the customer-supplier relationship is more or less ten years, depending on the strategic impact of the product<sup>7</sup> (MALAVAL, BÉNAROYA, 2009). Additionally, time and efforts spent in transactions, especially for technically complex purchases, contribute in strengthening business ties. With the shorter client database and the weight and influence of their bigger customers, suppliers are recurrently obliged to adapt their proposals, practices, and performances to comply with specifications launched by buyers.

**Supplier-switching cost:** In B2B, changing a supplier is a heavy decision which has to be thought and studied. In fact, this move can have consequences in terms of costs, methods, quality assurance and safety for the customer. If a part of a production plant is working with equipment of manufacturer X, switching them with another manufacturer's materials require training, tests, redesigning workflows, reviewing quality policies and possibly health, safety and environment procedures. All these actions entail additional costs which have to be compared with the expected gain.

**Promotion:** Advertising in B2B is a relatively powerless marketing communications means due to the necessity to offer more meticulous and relevant technical data. Addressees are not many and can be more personally identified and straightforwardly targeted with less cost. Feedback is essential in B2B and consequently the accent is logically placed on personal selling which is the most relevant for business marketing given the reduced number of potential customers comparing to business to consumer fields.

**Pricing:** in B2B context, prices are often set to suit the competitive bidding process. Discounts take diverse forms and become complicated as they are subject to the risks and opportunities faced by both contractual parties. Negotiation becomes thus of paramount importance in business markets and pricing policies turn to be determining due to the competitive atmosphere, in which purchasers prefer sourcing from the lowest bidder when all other elements of offers are comparable. However, procurement professionals should pay attention to some hidden costs that don't clearly appear in some supplier's proposals such as fees related to freight forwarding, customs clearance, payment terms, spare parts and required accessories, in addition of training and/or issuance of certain specific manuals and other documentations.

**Derived demand:** In B2B; demand for goods is eventually resulting from demand for consumer goods, and this represents one of the capital concepts in B2B Marketing. Companies must as a result keep an eye on the buying behaviour of final consumers (end-users) and not only their direct customers or suppliers. Since final consumers have such a prevailing power, companies try to boost their business sales by openly persuading consumers even though they don't directly trade their goods to them. The fact that demand is derived in B2B markets generates also another particularity: the inelasticity of demand. In fact, from the moment that a producer company has integrated a differentiated product into its methods, unexpected and out of control supplier's price rises should be engrossed awaiting an updated and modernized product to be developed, replacing totally or partially the original supplies.

**The concept of channel:** As we have seen through the derived demand, the marketing strategy of a packaging manufacturer for example, cannot be limited to its immediate customer (food products manufacturer), but must extend to customers of its client, if not to the final consumer. Indeed, if the ultimate consumer adopts a negative attitude towards the food product (and its owner company), which represents the customer for the packer, the latter will be equally affected, and that is what we call a chain-reaction. This same chain is known as a channel. The channel is therefore a chain of successive and interrelated activities which are complementary and linked by buying and selling operations, establishing "customer-supplier" relationships between the different members of the channel. In order to understand the linkages between businesses and conduct of B2B marketing activities, the concept of channel is valuable and relevant. Originally, the way of thinking regarding the concept of chains has emerged as a French specificity<sup>8</sup> (BENGHOZI, 2001).

### **Evolution of business purchasing**

Companies gradually understood that shifting market settings entail noteworthy moves in their purchasing activity. Purchasing approach has been progressively built until the framework called reverse marketing and later purchase marketing was set. In the early eras of marketing, companies' managers have given more prominence to the incomes and consequently to sales, but things have changed with the evolution of market settings. The increasingly competitive conditions make it hard to raise prices mechanically in order to cover increased costs, and gradually, the attention was turned to the expenses side. Steadily, the awareness of controlling costs -and therefore purchasing- became an inescapable rule. Additionally to the above-mentioned reasons, some historical factors have provoked refreshed interest in purchasing, such as<sup>9</sup> (POOLER V, POOLER D, FARNEY, 2004):

- World War II and the post war demand explosion coupled with the fast-rising material costs.

- The oil crises that happened in the 1970s created slower growth, inflation, harder competition, and consumer demand headed for more distinguished products, facts that pushed better assimilation of purchasing as a lever to secure the competitive advantage of companies, even if it was still perceived as a cost reduction tool only.

- The effects of innovation and the amplified complexity of technologically driven goods, one facet of innovation is to know where and how to source in a revolutionary way.

- The growth of innovatory information and communications technologies such as Internet and the related ability to communicate immediately at international level.
- The evolving trend of focusing on the business's core competencies, and outsourcing the other activities.

The seed of the upcoming buying centre first appeared in the works of WEBSTER and WIND<sup>10</sup> in 1972 that exposed the mixture of interlocutors' personal characteristics, the influence of their interpersonal relations, and the economic, legal and technical environment in which the purchase takes place. In this incessantly shifting environment, price became less important than before and quality turned out to be a weighty means of developing viable competitive advantage<sup>11</sup> (BURT, 1989). Some researches in the 80s<sup>12</sup> proved that product quality is a key element in ensuring the success of a new product, and the quantifiable features of quality determine at least half of the purchasing decision<sup>13</sup> (HUTCHINS, 1992). Specialists showed that virtuous product quality can only be accomplished by integrating quality in purchasing.

In the latter part of 1980s, specialist started to examine the success of Japanese businesses. It was found that suppliers was treated there as a valuable resource vital for their companies' success and consequently their attitude inclined to preserve good relationships with suppliers which was poles apart from that engaged by western companies who saw interactions with their suppliers as an extra<sup>14</sup> (COUSINS, LAMMING, LAWSON, SQUIRE, 2008). It was the beginning of supplier relationship management era, and as a straight result; the concept of extended company. The extended company approach has re-engineered organizations by downsizing (or rightsizing) them with the aim to enhance competitiveness. As a direct consequence, purchasing is frequently called upon to buy numerous goods and services that were formerly produced or executed in-house.

Amplified outsourcing has exerted supplementary strains on the purchasing activity. This growing specialization approach obliged companies to concentrate on their core activities and farm out many projects, henceforth; responsibilities, duties and role of purchasing have changed. It is reported that almost 70 % of direct costs of a modern company are generated by its purchasing activity<sup>15</sup> (CHALVIDANT, LE GOUGUEC, BRONGNIART, 2003). Further, the interactive current studied the customer-supplier relationship and all interferences between members of both purchasing and sales teams (COVA, HALL, 1992)<sup>16</sup>.

### The advent of purchase marketing

In 1988, LEENDERS and BLENKHORN<sup>17</sup> presented the term of *reverse marketing* describing an offensive type of purchasing that they had come across in the U.S.A and Japan. Reverse marketing was called later on Upstream Marketing or in French publications: “*Marketing achat*” which can be translated as *Purchase Marketing*. It defines how purchasing aggressively finds prospective suppliers and suggests for appropriate partners a bid for long term partnership. BURT<sup>18</sup> illustrated a comparable occurrence, which he labelled *proactive procurement*. The term *market-driven procurement* was used In Europe in the same period by BEN OUMLIL and WILLIAMS<sup>19</sup>. Purchase marketing approach has made a revolution in the buyer-supplier relationship, transforming it from the traditional framework where the supplier took the initiative by proposing a product, to a new one where the purchaser dynamically hunts suppliers who are willing to meet its precise requirements. The old purchasing approach and purchase marketing can be watched as two extremes with their proper faces, as follows:

Table 1: A comparison between the old purchasing approach and purchase marketing.

Old business purchasing approach	Purchase Marketing approach
<ul style="list-style-type: none"> <li>- Reactive</li> <li>- One-dimensional thought</li> <li>- Confrontational attitude toward suppliers.</li> <li>- Looking for immediate solutions; short time perspective.</li> <li>- Passive negotiation approach</li> <li>- Shows little ambition</li> </ul>	<ul style="list-style-type: none"> <li>- Proactive</li> <li>- Multidimensional thought</li> <li>- Cooperative attitude toward supplier.</li> <li>- Looking for lasting and enhancing solutions; long term perspective</li> <li>- Empathic negotiation approach</li> <li>- Highly motivated</li> </ul>

Adapted from: BLENKHORN (David), BANTING (Peter): *How Reverse Marketing Changes Buyer-Seller Roles*, in *Industrial Marketing Management*, USA, Vol. 20, 1991, pp. 185-191.

The development of the purchasing activity has revealed many likenesses to the growth of the marketing notion. For example the production vision which ruled management practice in the middle of the twentieth century is similar to old-style business purchasing that focused on product and price. Sales vision which came after that, highlights efforts of marketing people to push customers to purchase their goods. This can be compared to the purchasing function when it has started to focus on seeking for appropriate suppliers. Purchasing and marketing are both oriented to facilitating transactions and relationships with exterior partners. All these similarities make both functions closer in terms of methods and tools than it seems at first sight. Purchasing and Marketing

are also mutually dependent. A market-oriented approach will be fruitful only if marketing's thoughts are materialized into a proper purchasing strategy and vice versa, if the prospects recognized by purchasing are taken into account in the development of marketing actions.

Through their researches, specialists have tried modelling the purchase process, and among the emerging inclinations we find the purchase marketing. Purchase Marketing targets the satisfaction of the organizational buyer, who is in the B2B Marketing a group of several members or a centre, which implies as a result, the consideration of all the group's needs. There is hence a purchasing process which involves the members of the buying centre at its different stages. This buying centre is the most modern organization of the purchasing activity. It involves several identified steps with clear procedure from the identification of company needs to the assessment of suppliers' performance. The buying centre is a non-programmed set of people from different functions involved at some point by the same question, and respectively play the roles of requestors, users, consultants, advisors, gatekeepers, buyers, legal advisors and decision makers each with their motivations. Members influence at different levels the process and the purchase decision. The buying centre can be of variable size and composition, depending on the company, the product to be purchased and the purchase situation, its members are:

**Initiators:** who issue the purchase requisition of an item and push the purchase decision process. An initiator may not be the user when it comes to repeated purchases.

**Users:** can be initiators of purchase requisitions, but not always. They are habitually involved in the specification design process, as they are in the best place to determine the requirements of the item to be purchased, given the fact that they will take and use the product as soon as it has been received. Users also evaluate items performance thereafter, and subsequently give their feedback to buyers on compliance of suppliers to the company specifications.

**Influencers (or advisors):** often contribute to the definition of technical specifications for the item to be purchased and facilitate the technical evaluation of the received bids from competing suppliers. These influencers can be internal or external consultants hired to carry out a specific project. This is fairly prevalent in technologically complex purchases where the buying company is lacking the required expertise.

**Counsellors:** can be internal or external to the company. They propose the choice of a product or a supplier in view of their function



(Production Manager for example) or their status (trade association, honorary chairman). They are generally more difficult to be identified compared to the influencers.

***Filters or Gatekeepers:*** are people who have certain access or authority to filter the kind and quantity of information received by the company and by the other members of the Decision Making Unit. These filters or gatekeepers are for examples; assistants, secretaries or telephone switchboard agents.

***Buyers:*** usually shortlist the invited suppliers for a restricted consultation or manage the process for an open tender. Their title may differ from buyer to purchaser to procurement officer/ specialist / agent or clerk. Buyers organize the purchase course and ensure compliance with procurement procedure of their company, to guarantee the equal opportunity principle while defending the financial and qualitative interests of the organization. As shown earlier, buyers may not individually settle on which supplier will provide the sought product or service but they influence the final outcome. Some companies provide an additional member in the buying centre which is the *legal officer*. Its main task is to ensure strict compliance with contracting procedures of the company and to provide legal assistance to buyers if necessary.

***Decision makers:*** are those who take the ultimate purchasing pronouncement, in other words, those who “have the final say”. It is widely applicable to require higher approvals for some award and contracting decisions, the amount of which exceeds a certain financial level. These approvals are given by other decision makers, who can be senior buyers, procurement managers, supply chain managers, general manager or even the chief executive officer, depending on the signing authority policy of the subjected company.

### **Stages of the business buying process**

Even though purchasing situations are dissimilar, we can summarize general steps of the purchasing process as follows:

***Step 1: Detection, identification and expression of needs:*** recognition of the need is paramount and not always obvious. In the industrial world, needs are usually generated by three points: the resolution of an internal problem in the company, improvement of the current performances and finally innovation. A buying situation appears when a member of the organization perceives a need that can be satisfied through the purchase of goods or services. This need is generally the result of a perceived gap between an existing state and another condition to which we aspire. The

purchase situation is created only when this need may be satisfied through an external solution, and not internally.

**Step 2: definition of specifications for the item to be purchased and determination of the scope of work:** the main purpose of specifications is to accurately determine the characteristics of products and services that would service the need. The complete document provided by the buying company is called scope of work in some heavy projects. Specifications must be both:

- Technical: including a maximum of technical requirements and standards for the sought product.
- Functional: incorporating functions and minimum level of performance that the product to be purchased will be able to perform.
- Administrative: encompassing the financial, legal and administrative conditions that suppliers must fulfil in order to be able to participate in a tender.

**Step 3: Information research, determination of the purchasing strategy and the reception of submissions:** contractual strategy, which is decided by mutual agreement between end-users, buyers and decision makers, sets out the background of the purchase, the chosen mode for receipt of tenders, and the nature of the tender (open or restricted). It also precisely states the technical and financial evaluation framework to be followed, and the award criteria.

**Step 4: Technical bids evaluation:** technical evaluation examines the technical acceptability of the received offers compared to the requested specifications. The most commonly used approach is that of the Pass / Fail, where offers either successfully pass the technical assessment or fail and will be eliminated. This step therefore works as a filter or screener. Acceptance or elimination of tenderers may take extensive time if the buying centre deems appropriate to follow several rounds of technical clarifications (questions - confirmations) with bidders.

**Step 5: Financial evaluation of technically accepted offers:** the financial evaluation is carried out using an evaluation grid and weighted criteria, predetermined during the third step. The result of the financial evaluation is an ordered ranking of suppliers.

**Step 6: Negotiation with the selected supplier(s):** after a primary financial evaluation, negotiation rounds with one or more suppliers pre-selected for final award may intervene to discuss points like price but also

delivery times and terms, Incoterms, the general and special terms and conditions... etc.

**Step 7: Supplier choice, award and signature of the contract, purchase order or service order:** the supplier choice must be based on rational analysis of available proposals in addition of conclusions reached after negotiations.

**Step 8: Post purchase follow-up and assessment of supplier's delivery and compliance of materials:** evaluation of supplier performances occurs during the expediting period (laps of time between signature of the contract and delivery) but also after usage of the product purchased and expiration of the warranty period. Any dissatisfaction may result on the amendment or even termination of the contract and consequently return to step 3, or 2 or even step 1.

### **Current stakes and challenges**

The extended enterprise perspective has brought new stakes and challenges for purchase marketing. An extended enterprise is defined as "*a structure where a number of organisations come together in a joint endeavour in order to achieve outcomes that none of them could have achieved on their own*"<sup>20</sup> (Institute of Risk Management, 2014). Companies don't operate in isolation but in a compound system of third party relationships. This concept obliges purchasing activity to adopt new attitudes and generates new facts to be taken into consideration by purchase marketing. We can summarize them as follows:

**The corporate social responsibility:** an imperative challenge in the present time is to align with the important values related to corporate social responsibility. In a business environment increasingly concerned by quest for meaning and principles, companies are constantly watched by social responsibility activists and public opinion which expect sustainable business practices from them, therefore the latter will do their best to protect their social image, and purchasing is perceived as a critical lever to reach the social and environmental business performance. The aim is to avoid risks associated with purchasing activity such as issues of equity in dealing with suppliers (especially in public procurement), health-safety-environment aspects, labour rights and child labour.

**A new managerial dimension:** purchase marketing is nowadays called to contribute to the value creation for end users and shareholders by supporting the company in identifying good business opportunities. Purchasing people who are in direct contact with upstream markets can also ensure a technology watch task, by reporting notable innovation

which may be exploited by the company in developing its product. Purchasing professionals can also detect interesting joint ventures or mergers and acquisitions opportunities and inform their hierarchy.

***Contributing to innovation:*** companies especially in high-end technology industries have deeply reformed their way of innovating, going from a closed Innovation to an open Innovation model, inside which innovation is worked within networks of companies. The elementary assumption of open innovation is to disclose the innovation process and the idea that it is not necessary to originate a research to take profit from it. It is defined as: “*the use of purposive inflows and outflows of knowledge to accelerate internal innovation and to expand the markets for external use of innovation, respectively*”<sup>21</sup> (KARAMITSIOS, 2013). Purchasing should for example work jointly with suppliers and other actors outside ones company to best define modern problem statements and therefore work together to get innovative solutions, rather than traditionally waiting for classical ones.

***The advent of electronic procurement:*** With a trade volume estimated at several hundred billion dollars, electronic commerce between organizations seems more and more like one of the greatest figures of the new global economy. According to the *-Key Trends In 2013 For B2B e-commerce-* report of Forrester Research<sup>i</sup>, exchanges of electronic commerce in the B2B are thought to reach 559 billion dollars by the end of 2013, exceeding or even doubling the trade volume of e-commerce in the Business to consumer. Trade through internet has become very quickly an inescapable economic reality and an inevitable focus point for companies and their partners which increasingly tend toward electronic procurement (e-procurement) to run their operations. E-procurement is a true breakthrough innovation as long as it takes organizations to a new industrial dynamics based on information management. The vital reasoning for value creation is different, and traditional constraints of space and time are reduced. E-procurement questioned the functioning of a company and requires some transformations in all its structures; it consists on converting the procurement process into an automated process with a view to reduce time and costs. Its mechanisms influence relationships and communication prototypes, as well as the degree of interaction between companies.

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<sup>i</sup> An Independent company that provides market research on the impact of technology in the business world. It has 19 geographic locations worldwide, including eight research centres.

Decision making in purchasing will be consequently based on comprehensive business intelligence and real-time records allowing improved visibility with reduced risks and increased performance as a result. However, purchase marketing should take into account some constraints when running e-procurement practices such as change management, computing reliability and trade-off between sharing information and its confidentiality.

***Richer workforce:*** the developed economic stakes coupled with the escalating technical dimension and internationalisation of exchanges have revolutionised purchasing function and positions which become now highly valued within organizations. As a result, more expert people are attracted by the profession, and participate in raising its worth. In order to confirm the new positioning of purchasing within a company and its future role of fully business contributor, buyers must work on their leadership and personal influence, especially beside users, influencers and counsellors. They must develop a comprehensive understanding of their companies.

***Future power relations:*** According to TREHAN<sup>22</sup>, It is thought that in the mid and long term, we will witness a factual reversal of power relations in favour of the strong suppliers. Many experienced purchasing managers predict that the best suppliers will choose themselves clients with which they work. To cope with this foreseen situation, clients would have to differentiate themselves from their competitors in the purchasing stage, in order to become a shortlisted and approved client for suppliers. This would push clients to review many elements of their policies with suppliers, such as prices, minimum order quantities or amount that risk to seriously climb, or payment terms which would be often turned to advanced payment methods or using advanced compensation modes like revenue sharing.

### **Oil & gas industry**

The field of oil and gas has witnessed some major changes that upset regional and global balance of supply and demand in this market. The requirement to reduce production cost has become a strategic goal. This industry holds a paramount importance in the world economy, and more specifically for Algeria. Oil and gas industry is characterized by some special features which distinguish it from other business sectors. These characteristics are mainly as follows:

***The considerable numbers of joint ventures:*** due to hefty investments required in many stages of the industry, most oil and gas operations are conducted in joint ventures to split the significant costs. Joint venture is a

broad concept originated from business activities, and has no universally agreed definition. practically, it can be described as the ‘‘*association of parties for the purpose of a particular trading, commercial, mining or other financial undertaking or endeavour with a view to mutual profit, with each participant usually (but not necessarily) contributing money, property or skill*’’,<sup>23</sup> (CHETWIN, 2007).

***The inescapable political aspect:*** The oil and gas industry exert much influence on current world economic trends and vice versa. Both are entwined and have a pronounced effect on each other. The oil business is very unstable due to several unforeseeable causes, mainly the imposing political events coupled with their consequences, and the recurrent price fluctuation. There is no doubt that the underlying causes of many major international conflicts, border disputes and wars which happened in the last 40 years had been the ownership of oil and gas resources, in fact historical and political literatures have identified a potential role for natural resources in dozens of cases of wars and often militarized disputes all over the world<sup>24</sup> (CASELLIY, MORELLIZAND, ROHNER, 2014).

***The complex price determination:*** many factors influence oil and gas price dynamics in this industry, starting naturally from the natural law of supply and demand, up to the macroeconomic situation, and including particular factors such as the American dollar exchange rate, geopolitics and trends of the international financial markets. Technological revolutions also indirectly exert their impact; in fact they allow developing new techniques and by consequence new resources such as the unconventional oil and gas projects. This increase production and supply capacity and puts its weight on prices.

***Heavy safety and environmental risks:*** the industry entails weighty environmental risks as it may exert hefty strains on the local environment and population where operations are conducted. With the rising world demand for energy, petroleum companies are facing the challenge of satisfying this intensifying demand while minimizing the negative impact linked with their activities. In this context, Health-Safety-Environment (HSE) structures become nowadays an important part of oil and gas companies. Their role is to ensure compliance of all company’s activities including purchasing with the applied environmental standards in order to avoid physical, material and ecological losses, which all can seriously harm the company’s image and financial equilibrium. In fact, many petroleum companies were enforced to repair damages caused to some countries; the most famous example is the BP oil spill occurred in the

Gulf of Mexico in 2010, which caused inter alia<sup>25</sup>; 87 days of blowout<sup>ii</sup>, 11 killed people, more than 4 million barrels of oil lost in the spill and a world record fine of 18.7 billion US Dollars which BP agreed to pay in July 2015 to five countries touched by the disaster<sup>26</sup> (WADE, KRISTEN, 2015)

**Lobbying:** lobbying is one of the characteristics of the oil and gas industry. The most famous lobby is the organization of the Petroleum Exporting Countries (OPEC), created in Iraq in 1960, and regrouping presently twelve nations, among them Algeria. The OPEC coordinated actions have as mission ensuring the stabilization of the oil market, necessary to secure at the same time; an efficient, economic and regular supply of petroleum to the customers, a steady profit to producers and a reasonable return on capital for those investing in the petroleum business<sup>27</sup>.

### **Key success factors**

SONATRACH is by far the biggest company in Algeria and in Africa in terms of turnover and net profits<sup>28</sup>, in spite of the decreasing trend of its revenue. Its capital is fully owned by the Algerian state and the company operates mainly in Algeria, where it is favoured by local regulations which oblige foreign petroleum companies to run their activities in partnership with SONATRACH<sup>iii</sup>. As a result, more than 20 petroleum joint ventures have been set up in the country. SONATRACH production through these joint ventures accounts for 24% of the global production of the company<sup>29</sup>. Their weight is particularly noticeable when it comes to the production of crude oil in which they contribute to 47% of all SONATRACH output<sup>30</sup>. What is interesting in studying purchase marketing practice in these joint ventures specifically is their multinational nature and culture. The latter bring diversity in terms of experiences, orientations, policies, and behaviours.

Following a field investigation made within these joint ventures, eight key success factors of purchase marketing have been identified as follows:

***Building a customer-supplier relationship based on the long-run:*** it was noticed a global awareness of purchasing professionals working in SONATRACH joint ventures about the importance of building and

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<sup>ii</sup> A blowout is an unrestrained discharge of crude oil or natural gas from their well following a failure in pressure safety systems.

<sup>iii</sup> Article 24 of the Algerian Law number 86-14 of August 19th, 1986, related to prospection, research, production and transportation activities of hydrocarbons.

growing long-standing relationship with certain suppliers. Many purchases in the oil and gas industry are characterized by the long periods and labours expended by both customers and suppliers in the bidding process, specifically for technically complex subjects. This supports solidification of business connections between purchasers and suppliers, especially when the outcomes of their numerous exchanges are satisfactory which will reinforce their mutual confidence and improve the atmosphere inside which they perform their dealings. This maintained relationship facilitates purchasing work and enables many benefits in the long run such as reducing process cost and contributing to open innovation.

***Extensive use of e-procurement:*** the spread of electronic procurement practices is more than a necessity for companies in the oil and gas industry. SONATRACH joint ventures are not an exception to this rule. This thought is widely shared by their purchasing professionals. With its automatic chaining of tasks and noticeable fluidity, e-procurement additions in terms of time and cost reduction are unquestionable. But its benefits are extended to other important areas such as communication with suppliers which can be largely improved and by this way electronic procurement helps ultimately developing sustainable relationships with suppliers. E-procurement is also an ideal decision support instrument for purchasing professionals, helping them to reduce risks and optimize consequences of their choices.

***Relevant contracting procedures:*** It was found inside SONATRACH joint ventures that the relevance of contracting procedures do have a tangible impact on the success of purchase processes. Comprehensive and clear contracting procedures can be used as a guideline at every stage of the process and represent a reference in any case of ambiguity or difficulty to make a decision. This contributes to reducing uncertainty for purchasing professionals and enhances transparency of their actions. To be relevant, contracting procedures should take into consideration the size of the company, its resources and the purchasing workload.

***Category purchasing:*** organizing buyers by categories in SONATRACH joint ventures turned out to be a good move to enhance their performances. Categories can be set up based on the type of commodities (mechanical, electrical, IT, instrumentation etc...), or on the potential sourced markets (local, international), or on the heaviness of the purchase requisition handled by the purchasing professional. This specialization allows buyers to be more acquainted with their tasks, to be more familiar with materials they source and buy, and helps them in developing their relationship with vendors' representatives as they would



deal with the same panel of suppliers. They are consequently able to properly master markets with which they deal. Definitely, category purchasing offers the possibility for buyers to be quicker and more confident in their decision making, and as a result more efficient.

***Precise, fully detailed and standardized specifications:*** the quality of specifications shaping the scope of supply or scope of work is another deciding factor. In fact, precise and fully detailed specifications make the purchase process smoother, both for the company and for its suppliers. When all relevant information is included, it is easier for suppliers to work on and the process is better manageable for the decision making unit of the buying company. It also eliminates technical ambiguities and defines clearly the desired quality level of goods expected to meet the customer's needs and requirements. Standardized specifications are looked-for when possible in order to escape specific technological ties which will oblige the customer to adopt certain production processes that force the company to procure its solutions from the same sources, with the danger to fall in a dependency situation towards a supplier. Instead of that, standardized requirements enable the possibility of using interchangeable solutions and therefore the advantage for customer to promoting competition between suppliers, with all its benefits.

***Projects planning:*** reaching optimal purchase marketing in the oil and gas industry cannot be done without a well-studied purchase requisitions launching. The latter is in turn intimately linked to the appositeness of projects planning inside the company. When projects are timely defined, steps methodically planned, and projects needs clearly identified; the internal end-users can launch proper purchase requisitions in terms of time and content. Being the starting stage of the purchasing route, its importance is huge as it will subsequently shape the rest of the process and influence its quality. Generally speaking, projects not enough planned in advance lead to rushed or untimely purchase requisitions and ultimately to a perfectible final purchasing result due to the emergency in which the process has been conducted.

***Managerial support:*** Another important factor for the success of purchase marketing in the oil & gas industry is the managerial support. The rank given to the purchasing profession can lead to the success or failure of all the purchase marketing in a company. If the profession is still considered as an administrative assisting task, there will be little chances to develop a proactive team of buyers and purchasing managers able to handle purchasing modern missions in the right way. Also, the perception of purchasing activity by other structures of a company is important. Finance, Research & Development and other structures

comprising internal end-users have to understand the actual role of purchasing and its objectives, concerns and constraints, in order to ensure the necessary liaison between members of the buying centre.

**Multi-skilled purchasing staff:** To guarantee the success of purchase marketing inside a company, and especially in the heavy oil & gas sector, professionals of purchasing are presently in the obligation of developing a wide range of skills covering several fields from purchasing, marketing, finance, law, international trade, negotiation, communication, management, technical knowledge etc. The present and future profile of a buyer is far different from what was the tradition in the past. The proactive characteristic of the modern purchasing professional calls for number of skills that were not looked for before, such as leadership, persuasive force and ability to entertain sustainable relationships with partners. These fresh requirements involve accompanying efforts from the company in terms of training and remuneration policies.

### **Conclusion**

Purchasing had shifted from a clerical and reactive activity to a proactive function dynamically assisting the strategic objectives of the company. With the altered characteristics of the business environment today, dictated by mounting globalisation, harsher competition, limited resources and ever-changing marketplaces, purchasing is struggling to build the appropriate policies which would maintain the company's profitability and competitiveness. The transformed dimensions of purchasing being consigned a strategic title henceforth, have been broadly addressed and portrayed by researchers and practitioners in different points of view. But the shared conviction amongst them is the confirmed credit given to this function and the consciousness of the need to deeply integrate it in today's businesses. The concept of extended company intensifies this transformation as it shades the boundaries that formerly separated in a clear manner the internal and external parties around a company.

The single buyer era is a thing of the past; nowadays the role of a purchasing unit is much more highlighted. Purchasing has grown from a dyadic interaction one-to-one which was the "seller-buyer" interface; to a state where a buying team deals with a sales' team as well. This fresh setting involves stronger and larger skills to be developed by purchasing professionals to fulfil their contemporary missions. Organizational buying in the modern framework of purchase marketing is broader than the simple purchase of goods and services. Beyond this necessary duty, it targets the growth and managing of sustainable relationships with other

organizations. Growing partnerships with suppliers helps gaining advantages, and some of which could be competitive. It is also a good way to enhance innovation and the course of launching new products as it facilitates the research and development process, but building this partnership requires long term labour.

Organizational purchasing at the present time is often subject to numerous influences and pressures occurring from many sides; namely, the company which it represents and has to preserve interests, internal end-users worried about the on-time delivery of their required products, and suppliers with which it seeks to establish win-win and long-run relationships. In state-owned companies, the pressure is doubled with restrictions due to specific laws governing the public procurement. Any mistake can lead to heavy personal consequences for the buyer, but also for the other members of the decision making unit.

In the case of SONATRACH joint ventures, eight factors can be identified as critical factors to the success of purchase marketing in the oil & gas industry, namely; customer-supplier relationship, extensive use of e-procurement, relevance of contracting procedures, category purchasing, quality of specifications, projects planning, the managerial support and the multidisciplinary skills that purchasing staff should develop. Purchasing in these companies has to be revamped to place a greater attention on obtaining customer solutions instead of pre-specified goods and services. This means the repositioning of purchasing less with production but more with marketing. It involves searching for solution providers rather than products vendors, and also the assessment of suppliers based on the entire offered solutions in place of the simple timely and cost-effective delivery of materials. Purchase marketing would then lead these joint ventures to acquire the most operative customer solution cost-effectively, and by the way purchasing would shape and take a leadership status within these organizations.

As we can notice, the purchasing activity involves always thinking about the future. Purchasing is about predicting and anticipating suppliers' performances. Buyers have to continuously look ahead, prepare their transactions for later results and deal with consequences to be occurred in the future. This future-oriented attitude involves having far-reaching vision to achieve objectives, especially when dealing with suppliers.

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