



by Richard O. Berard, Jr.
Arthur Andersen, Houston, Texas

Global Energy Trends

Abstract

The business world is evolving into what is being called "The New Economy" which is neither a fad nor a convenient way to explain the rise in the stock market. It represents, a radical change in the way that we will all do business in the future and it reflects many features beyond just technology. The "New Economy" is real and is characterized by five distinct phenomena: 1) Megatrends such as consolidation, globalization and convergence are occurring within and across industries, 2) Widespread integration of new technologies such as the Internet, ASPs and enhanced telecommunications, 3) A shifting of power from suppliers of products and services back to consumers, 4) An increased emphasis and premium placed on intangibles such as relationships, knowledge and leadership and 5) The differing mindset of the X generation entering the workforce and the resulting war for talent that places considerable importance on the softer side of business. The dynamics are changing the general nature of the way people, work, live and do business. These changes are heavily influencing older traditional industries such as the oil and gas industry. The companies that accept these changes and actively position themselves to benefit from these immense opportunities will be greatly advantaged to those companies who remain passive observers.

The global exploration and production (E&P) market remains immense with over a dozen worldwide majors and nearly fifty global independents participating in an industry that is now over a hundred years old. These sixty players employ over one million people, carry over \$1 trillion of book value assets and deploy over \$100 billion in capital per annum. These size metrics do not even include the upstream service companies or national oil companies (NOCs) that also have a major impact on the industry. Consider that the 60 largest, publicly traded E&P companies have a combined market capitalization of \$1.2 trillion. This combined market value is larger than the gross domestic product of all but six of the world's most prosperous nations.

In addition to its massive size, the industry is also well positioned to create value as a result of other factors. Commodity prices remain strong for both crude and gas with increasing demand sparked by a robust world economy. Furthermore, other metrics of performance such as find and develop cost, operating cost, reserve replacement rates, and margins all indicate that the industry should be undergoing a period of protracted value creation for all of its stakeholders.

Despite its size and present business environment conducive to high value creation, not all E&P companies have been stellar performers from a shareholder value perspective. This presentation attempts to address: Why? And, What can be done? Based on a 10,000 company multi-industry research endeavor, the primary building blocks to value creation are identified. The fundamental elements are adapted into four primary conclusions relating to value creation in the "New Economy". They are: 1) Intangible assets are the engines of wealth, 2) A company's asset portfolio more than its industry determines success, 3) Companies with fewer physical assets generate higher returns with less risk and 4) Most business leaders agree the business environment is changing drastically but do not act accordingly. These fundamentals are then evaluated for acceptance and level of integration within the E&P industry. It is through this "Value Dynamic" perspective that the process to E&P value creation in the New Economy is developed.

Biographical Sketch

Richard O. Berard, Jr. is a Manager in Arthur Andersen's Oil and Gas Business Consulting practice specializing in the oil and gas exploration and production industry. Rich has been providing consulting services to domestic and international oil and gas companies for the past six years, the last three while at Arthur Andersen. Rich's oil and gas



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expertise includes significant experience in value creation, performance measurement, market analysis, organizational design and cost assessment. Rich manages the firm's annual exploration and production benchmarking study which includes both qualitative and quantitative analysis of cost and performance measurement. Rich holds BBA in Economics and Political Science from the University of Miami and a MS in Economics with honors from Bentley College. ■