



The Boiling Points

2016
March
April

Industry News

LOW OIL PRICES MEAN MORE SCRUTINY AND TIME TO IMPROVE FOR INSPECTION COMPANIES

The drop in oil prices has reverberated not only across the globe, but the effects here in the Houston and the Gulf Coast region have been substantial as well. Thousands of folks have lost their jobs due to the downturn and scores of more layoffs continue to hover over the nation's oil capital as WTI and Brent crude prices struggle to maintain in the mid \$30-a-barrel range.

Meanwhile, the inspection side of the midstream segment has been more fortunate as most companies haven't hemorrhaged the kind of cash and headcount that's been emblematic of the oil and gas industry lately.

"The inspection business has been doing okay," said Andy Lipow of Lipow Oil Associates LLC here in Houston, "because of the lifting of the export ban, you've got more vessels coming in and out of the (Houston) Ship Channel, so that provides more opportunities for inspections."

"The entire industry has had to tighten up, and the midstream has tightened up as well, but because of their fee-based revenue, they're in a better place to operate during this down period than the upstream oilfield services," added longtime Midstream analyst Greg Haas of Stratas Advisors.

Both men are quick to point out that by no means is Midstream blowing away the other segments, and in fact this is the time more than ever to focus on streamlining business practices and work smarter in preparation for when the market does turn around.

Haas said the companies that are the "leanest and most efficient" are the ones best positioned for succeeding not just now but when the markets recover. He added that traders would prefer to use fewer inspection companies during times like these so it's vital to make the most of the uncertainty in the market.

Continued on next page...





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“That’s the silver lining in an otherwise muddy cloud,” said Haas, “companies have been experiencing break-neck growth and that’s not happening right now, so this is the time to focus on smart growth.”

Part of that smart growth is ensuring you’re providing top notch customer service to separate yourselves from competitors.

“Customer service is being scrutinized more than ever right now,” said Lipow, “little things that may have been overlooked when profits were higher are being looked at more carefully now because small problems quickly become bigger problems. A vessel shouldn’t hit the dock and you’re waiting an hour for an inspector. We’re currently in a low-price environment and waiting around costs people money.”

Ultimately, now is the time to tighten up where you can because the bottom won’t last forever.

“This is a cyclical business,” said Haas, “so be prepared for the up cycle because it will come back.”

Andy Lipow is a consultant with Lipow Oil Associates LLC and has been in O&G for more than 30 years.

Greg Haas is an analyst with Stratas Advisors and has been in O&G for more than 25 years.

Article courtesy of Fred Davis.

