

CRACKING THE FRACKING MARKET:

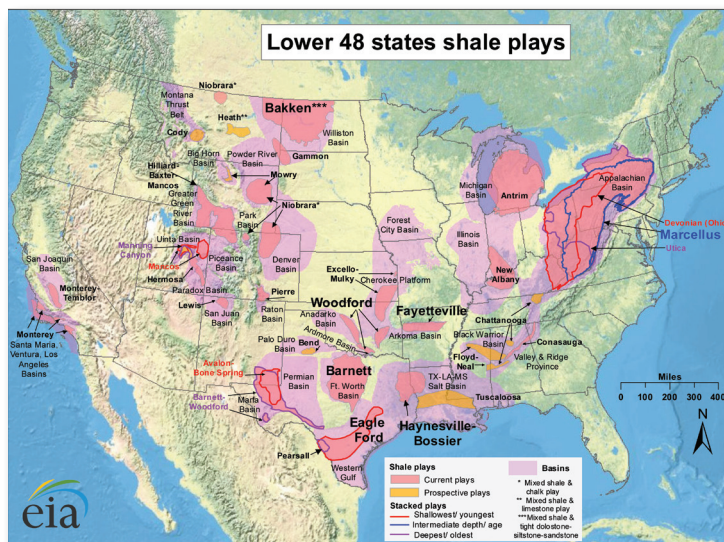
Ensuring Your Place in the Race to Achieve an Energy-Independent America
Manufacturer and Distributor Perspectives

The natural gas industry was given prime advertising in this year's Kentucky Derby in the form of a shale-colored racehorse named Frac Daddy who with 50:1 odds placed 16th out of 19 contenders in the run for the roses. In jockeying for position in the high-stakes race to serve customers in the oil and gas production industry, it's a good bet that distributors will fare with better odds than the three-year old whose name pays homage to the practice of hydraulic fracturing—all provided the right products, selling strategies and operating infrastructure are firmly in place.

The Drill Down – What's Involved in the Process

Hydraulic fracturing involves the pressurized pumping of water, sand and chemical additives into deeply drilled wells to fracture formations of shale lying 5,000-8,000 feet below the earth's surface. The process blasts apart the shale as it carries sand and proppants (solid materials, typically treated sand or man-made ceramic materials) into the cracks to hold them open while the well undergoes a process of pressurization and depressurization that stimulates the flow of natural gas and oil for extraction.





Gearing Up to Get Out of the Gate

As the map of “Shale Plays in the Lower 48 States” illustrates, current drilling activity is high and energy companies are focusing their efforts in key regions such as Texas (Barnett Shale Formation), Pennsylvania (Marcellus Shale Basin) and North Dakota (Bakken Shale Formation), with other areas still fresh on the horizon.

“The use of horizontal drilling enables the energy companies to achieve increased productivity for individual wells and well pads,” said Joe Wilson, a senior marketing manager at Emerson Industrial Automation’s EGS Electrical Group. “We track the number of rigs at each drill site to forecast the needs of our customers and create a market basket of products specific to their needs. We closely collaborate with them to forecast demand on a monthly or bimonthly basis to ensure that we have the right products to fit their wells.” Depending on their geographic location, individual drillers have different product specification requirements. Those in Texas will require products that tolerate different temperature extremes than those in North Dakota.

Tom Barker, chief operating officer of Texas-based IMARK member Mid Coast Electric Supply, whose company serves drillers in South Texas’ Eagle Ford Shale region, explains that understanding the needs of these high-value, sophisticated and technologically focused customers is key to breaking into this market. “Large numbers of conference companies have sprung up that focus strictly on this market. We’ve dabbled with some of their programs but have found that the best way to get in front of these potential customers is to do our

When used in conjunction with horizontal drilling techniques, fracking makes it possible to attain previously inaccessible volumes of gas and oil from a single drill site at volumes exponentially greater than those accessible from vertically-drilled wells.

Though fracking and horizontal drilling have been around for decades, only recently has the energy industry devised advanced techniques to dramatically and cost-efficiently expand and accelerate production. Between 2005 and 2012, natural gas production rose 34 percent while the industry has helped fuel the nation’s job growth. Generating less carbon dioxide, a key contributor to global warming, than coal, electric utility plants are increasingly switching to natural gas, manufacturers are using it to power factories and trucks and busses are running on a compressed liquid form of it as a fuel source.

As the industry continues its rapid growth, so too does the controversy and the concerns over blowouts, earthquakes, air, water, noise pollution and potentially-lethal methane gas exposure. However, production is only likely to accelerate in the future because the stakes for revenue and profit growth throughout multiple sectors of the industry are enormous. With the nation’s energy independence tied in large measure to the domestic energy production market, how do you leverage your organization’s capabilities to capitalize on the potentially vast opportunities?

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own research and go out and talk with them, which is what we've been doing," he said. Forty percent of Mid Coast's customer base are energy companies.

"We've witnessed that the most successful companies in our industry are running small, nimble, highly-capitalized organizations that specialize in this market. Decisions need to be made quickly to purchase and ship inventory with very tight turn-around," he adds. Larger firms with a well-oiled approach to solutions-based selling have also fared successfully, he observed.

"We're finding that many local distributors aren't able to ramp up their inventory fast enough," Barker adds. "The huge majority are commercially, rather than industrially, focused. The energy companies are a different breed of customer with highly-time sensitive delivery requirements, high volume product needs that require a significant ongoing investment in inventory and a highly trained sales and support team that understands the needs of each of the three segments of the market." Mid Coast concentrates in the industrial MRO, OEM and automation space, offering solutions that include bulk material staging and delivery, automation controls support, coordination and integration of turnkey systems and construction for unique customer requirements.

Barker explains that there are three groups of customers in the sales channel: upstream, midstream and downstream, each requiring a unique set of products. The upstream sector includes exploration and drilling customers. The midstream channel involves the transportation, storage and processing sector. The downstream sector, which overlaps with midstream operations, touches end-user consumers through finished products such as gasoline, kerosene, jet fuel, diesel oil, heating oil, fuel oils, lubricants, waxes, asphalt, natural gas, liquefied petroleum gas (LPG) and hundreds of petrochemicals.

Emerson Industrial Automation's EGS Electrical Group has tailored its product offering to fit the needs of customers in each of the three channels through product offerings in its Appleton, O-Z/Gedney and SolaHD lines.

"We've tailored our offering to suit the needs of each segment, said Heather Green, the company's director of strategic sales. "Our custom solutions are designed to fit the full range of customer needs throughout the process, from the conventional onshore drilling rigs (vertical drillers), unconventional well pad drillers (horizontal drillers) and offshore drillers in the upstream channel to the refining or petrochemical companies in the downstream market. We work very closely with our distributor customers in the key shale play regions of the country to ensure that we have the right product mix to meet the requirements of each channel."

The products include an expansive offering of hazardous-rated, explosion-proof plug and play connection devices, quick sealing gel fittings for terminal connections, Category 5 hurricane-resistant fluorescent lighting fixtures, cable and conduit connectors for upstream applications, energy efficient LED lighting solutions and cable and conduit connectors for maintenance activities for refinery customers and energy-efficient, corrosion-resistant panelboards for downstream processing customers.

Hazardous-rated devices are especially critical on the drill site, explains Emerson's Dan Douglass, vice president of business development. "Fittings used at the drill site, must be designed to prevent hazardous oil and gases from propagating through the conduit system into junction boxes, lighting fixtures, panelboards and other devices to prevent the mixture from becoming the equivalent of a bomb, should an ignition source be present."

For distributors looking to serve this market, the keys to success lie in understanding the needs of key influencers across every segment of the sales channel. "Getting in front of the end-user, the OEM and/or the rig builder and understanding the concerns and business requirements of each of these buying segments is paramount," Green said.

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"The OEM buyer will have different needs than the rig builder and the end-user and each group will have influencers within their respective organizations. It's essential to utilize both push and pull marketing and selling strategies, while understanding both the technical buyer's and the economic buyer's needs."

The Environmental Impact

Commenting on the impact the energy boom has had not just on his company but on his town, Barker states, "Here in South Texas the conditions for the average resident have dramatically changed. Once a sleepy little forgotten place on the map, we're now overrun with truck

traffic and crowded roadways. As a result of the drilling in the Eagle Ford shale region, there's significant demand on the local infrastructure. The industry has attracted a culturally-diverse workforce. We have a need for more roads, more law enforcement and more monitoring of environmental issues. On the other end of the spectrum, landowners, business owners and the tax base of the local economy have all significantly benefitted financially."

What's Being Done to Help Mitigate the Controversy

Drilling companies are directing greater efforts toward researching and developing new technologies

and processes to make their operations more productive and more acceptable to local communities, regulators and legislators. The development of new pumping methods that utilize less proppants and consume 60 percent less water, waterless fracking and techniques that clean the water once it is used in the flow back process are rapidly being introduced.

While Frac Daddy was not a 2013 Triple Crown winner, the opportunity to serve this booming market as the race to achieve America's energy independence continues are unbridled.

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