

071 Local Business Adaptation  
to East Coast Offshore  
Energy Development

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**LOCAL BUSINESS ADAPTATION TO  
EAST COAST OFFSHORE ENERGY  
DEVELOPMENT**

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The authors assume full responsibility for errors and omissions.

## SUMMARY

The development of Hibernia will generate substantial levels of demand for a broad range of goods and services. Nevertheless, it is clear that a limited number of opportunities will be realized by Newfoundland companies, owing, in large part, to Newfoundland's narrow economic base.

Under such limiting conditions, it is important for new and existing companies to adopt and persist in the application of sound business strategies tailored to respond to the vagaries associated with the industry. In all instances, developing a business relationship within the industry demands meeting exacting standards of quality and professional competence in supplying the industry's many needs.

This report contains a qualitative analysis and discussion of the salient features of doing business with the oil industry. It represents a consolidation and summary of the views of local business representatives on doing business with the industry and, conversely, the views of oil industry representatives on doing business with local companies.

The content of the report is not intended to serve as a strict guideline to doing business with oil industry companies; rather, its purpose is simply to inform by outlining the experience of individuals within the local business community. Hopefully, what is documented here will prove useful in helping to promote discussion of what it means to do business with the industry, and how local business interests can improve their commercial success individually or collectively for the betterment of the Newfoundland economy.

## RÉSUMÉ

L'exploitation du puit d'Hibernia devrait promouvoir considérablement la demande pour une vaste gamme de biens et de services. Il est évident cependant que les sociétés de Terre-Neuve ne pourront profiter que d'un nombre limité d'opportunités, en raison essentiellement de la faiblesse de la base économique de la région.

Compte tenu d'une marge de manoeuvre aussi restreinte, il importe que les entreprises de la région, tant les entreprises nouvelles que celles qui existent déjà depuis un certain temps, mettent en oeuvre des stratégies commerciales efficaces, qui leur permettent de réagir et de s'adapter aux aléas de l'industrie du pétrole. Dans tous les cas de figure, ces compagnies doivent absolument, si elles veulent instaurer avec l'industrie des relations de travail fructueuses, veiller à respecter les exigences de qualité et de compétence professionnelle dans leur réponse aux multiples besoins de l'industrie.

Le présent rapport contient une analyse quantitative et un exposé des principaux éléments qui caractérisent les relations avec l'industrie pétrolière. Il constitue à la fois une récapitulation et un résumé des opinions exprimées par les représentants des industries locales ayant eu affaire avec l'industrie du pétrole, et à l'inverse, celles des représentants de l'industrie qui ont eu l'occasion de travailler avec des entreprises locales.

Ce document n'a pas la prétention de servir de "guide officiel" des relations commerciales avec les sociétés pétrolières; il se veut plutôt un simple outil d'information, décrivant l'expérience vécue par des entrepreneurs membres de la communauté industrielle locale. Nous espérons que le contenu de ce rapport permettra d'approfondir l'étude des relations commerciales avec l'industrie du pétrole et qu'il aidera les entreprises locales à voir comment elles pourraient améliorer leurs performances commerciales, que ce soit individuellement ou collectivement, d'une manière qui contribue à l'avancement économique de la province de Terre-Neuve.

**PART ONE**

**A REVIEW OF LOCAL COMPANY PARTICIPATION IN  
EAST COAST OFFSHORE ENERGY DEVELOPMENT**

# **INTRODUCTION**

## **Background**

Oil and gas exploration activity off Canada's east coast has had a visible and positive effect on the Newfoundland economy. In the past five years, for example, about 275 businesses whose operations are wholly or mainly oil and gas related have been formed (mostly in St. John's).

At \$50 million per well, the goods and services required to support an offshore drilling program represent significant commercial opportunities. Their significance lies not just in the magnitude of the expenditures, but in the similarity of the requirements from one well to the next. Given this repetitiveness and the importance of proximity to exploration activity, it would appear local interests are well positioned to take advantage of these opportunities. In practice, it is not that simple. A number of local companies have been successful, but after 20 years of exploration on the east coast, local content levels for most goods and services are at or below 20 percent. Much of this content is accounted for by wages and salaries of those directly engaged in drilling and services.

The development of Hibernia will (similarly) generate substantial demand for a broad range of goods and services. Though demand will represent a genuine opportunity for Canadian industry, it is clear that a limited number of opportunities will be realized by Newfoundland companies owing to the province's narrow industrial and economic base. Moreover, many of the goods and services required by the oil industry have never been produced in Newfoundland. Other factors limiting Newfoundland business participation include; competition, the uncertainty associated with the industry, high capital costs and the generally small scale of operations in most Newfoundland businesses.

## **Objective**

This study has two objectives:

- to identify and evaluate business strategies used by local companies (in Newfoundland) to participate in the commercial opportunities associated with the development of offshore energy resources; and,
- to provide a review of the oil industry's experience with local suppliers/manufacturers in Newfoundland.

## **Approach**

The first objective was achieved by surveying a representative sample of 30 local companies in Newfoundland. Most of these companies are small, with 80 percent having fewer than thirty employees. About three-quarters of the companies were established since 1920, and a third since 1980. The sample companies are categorized in the following way:

**Supply/Service:** Those companies servicing and distributing materials and equipment demanded by the oil industry. Eleven of the thirty companies fell into this category.

**Fabrication:** Those companies involved in designing and producing specialized products to the oil industry. Three of the thirty companies fell into this category.

**Service:** Those companies supplying the broad range of expertise required by oil companies, including engineering, transportation and financial services. Sixteen of the thirty companies fell into this category.

The second objective was met through interviews with representatives of operating oil companies and their major contractors.

Percentages cited in the study are based on the total response to a given question unless indicated otherwise. Every effort was made to ensure comments and opinions expressed by local company representatives are presented fairly and in a prioritized manner reflecting relative importance.

The study is presented in three main parts. The first part contains an analysis of the results of the local company survey. The second part contains a discussion of the oil industry's assessment of local company business practices and gives suggestions offered by oil industry representatives to increase local company participation. Part three is the appendix containing a comparison of selected results of this survey with results of a comparable study in Nova Scotia, a note on sample selection and the interview guides used, and a list of those interviewed.

The small sample size, the highly qualitative subject matter and the many variables affecting local company participation in the offshore preclude any definitive statement on the effectiveness of any particular business strategy. What the results do provide are the common denominators in those local company business strategies that have realized success in offshore energy related business.

# INITIATING INVOLVEMENT IN THE OFFSHORE ENERGY SECTOR

## Overall

Just over half the companies surveyed became involved with the offshore as an extension of their existing market base. The balance were established in direct response to the commercial opportunities afforded by the offshore. In some instances, companies in the latter category began operations by catering to more traditional markets, such as the construction and fishing industries, in order to establish expertise, experience and a reputation before devoting all resources to the offshore energy market.

The means used - and planned - by local companies to participate in the offshore vary. Those cited include:

**Joining Associations:** Many local companies wishing to participate in the offshore joined the Newfoundland Ocean Industries Association (NOIA) to acquire information on offshore activity and related business opportunities. Most of those surveyed believe NOIA is a useful forum for obtaining information and meeting other business colleagues, but stopped short of stating membership had (clearly) resulted in business opportunities.

**Forming consortiums, joint ventures or partnerships:** Several local companies are planning to become involved in a consortium of local companies. This is considered an effective means of gaining access to offshore related markets because of the pooling of local expertise and capability. (An earlier consortium broke up when a joint venture in manufacturing failed due to financial difficulty).

**Investing in new equipment and technology:** Many firms increased investment in new equipment and expansion of facilities to increase production/service capacity, while others increased staff or research and development initiatives to modify existing products or develop new ones.

**Diversifying operations:** A few companies branched into areas of business (sometimes) unrelated to their existing operation. This was generally achieved in one of several ways including:

- Forming a new wholly owned company
- Establishing a joint venture company
- Forming a limited partnership with another Newfoundland or Canadian firm
- Increasing company holdings by purchasing a controlling interest in another local company.

**Simple expansion of the company's market base:** In this case, companies expanded their market base to include the offshore sector without

undertaking additional investment. In these instances, the local company already provided services (required by oil industry companies) for other industries such as construction and fishing. Involvement in this way was normally by service companies and can be characterized as a basic function of the company's assets of highly skilled and professional staff, office space, harbour frontage and specialized heavy equipment. Local companies possessing such assets naturally looked to offshore related applications. Fabrication companies also had much of the necessary equipment and capacity to undertake production of some offshore related products without incurring additional investment in plant facilities or equipment.

## **Supply/Service**

Most companies whose involvement in the offshore represents an extension of their market base are supply/service companies. These companies, investing mainly in inventories, have relatively low levels of fixed assets which affords greater flexibility in selecting markets and reduces dependence on any particular market. This characteristic enabled supply/service companies to gain access to the offshore market with relative ease and to control their level of involvement. This proved to be a valuable hedge against the recent downturn in offshore activity.

## **Fabrication**

The more traditional markets for fabrication companies are the newsprint, fishing, and construction industries with offshore energy related activity representing a relatively small proportion of total annual business activity. Operators of fabrication companies are keenly aware of the vagaries of the offshore market. With a relatively large proportion of fixed assets, these companies tend to prefer markets offering security. As a result, they have intentionally limited their involvement in the offshore sector while maintaining their focus on their traditional markets. These companies tend to become involved in offshore-related business only if an opportunity can be realized without incurring undue risk.

## **Service**

As offshore activity increased, many Service companies saw opportunities to use their assets and expertise to provide service(s) required by the industry. For these Service companies the offshore became a natural extension of their market base: in some cases it quickly became the major source of annual revenue.



## BUSINESS DEVELOPMENT

### Understanding the Oil Industry

There are many sources of information available to local business people seeking an understanding of the product/service needs of the oil industry and the policies and procedures to follow in supplying these requirements. Table 1 indicates the majority of respondents (70 percent) attended trade shows while 67 percent consulted trade magazines, industry publications, rig reports and other printed matter. Completing vendor questionnaires and becoming a member in the Newfoundland Ocean Industries Association were the third most common means with 63 percent of respondents indicating each of these two methods. The fourth most common method was hiring staff or having a senior partner with extensive knowledge and experience related to the oil industry. Participating in trade missions and/or visiting overseas locations where development of offshore resources is taking place was the fifth most common method. All others are of relatively minor importance.

Attending trade shows is regarded by most respondents as an investment in education. Attendance at the larger shows, in particular, helps to broaden the perspective local business people have of the scale of an offshore energy development project. This view is not unlike the view respondents expressed regarding trade missions and other visits to overseas projects. The first hand view of these projects left indelible impressions. A few respondents were very enthusiastic as a result of seeing wide-spread application of the product(s)/service(s) they produce or supply. Eager to participate in opportunities associated with development of Hibernia, some embarked on a research program to identify the nature and extent of their potential participation. In some cases, this process led to investment in new equipment, acquisitions of other companies, marketing and lobbying large oil industry companies and development of middle to high level technology.

Not all respondents who visited other offshore development sites were motivated to pursue offshore-related commercial opportunities in Newfoundland. These respondents believe Newfoundland has an (existing) industrial base that is all too inadequate to support an offshore development project in a way that significant local participation could be realized. These individuals note, for example, that Scotland's industrial base prior to offshore development was much more diverse and sophisticated than Newfoundland's present industrial base. Based on this observation and a somewhat philosophical perspective, these individuals believe the role of Newfoundland companies in offshore development will be very limited. Moreover, they have decided to limit their own participation.

Luncheons and other gatherings are considered important mediums for some respondents wishing to maintain face-to-face contact with oil industry representatives and other local business people. Some describe their attendance at these gatherings as a means of "seeing" and "being seen." They are not strictly regarded as a direct method of obtaining business, but several respondents were quick to point out that they were not prepared to risk the costs of not "being seen". An opposing view is that such gatherings are merely social functions; they do not afford (additional) meaningful contact with oil industry representatives, nor do they serve as a source of additional offshore related information. In

**Table 1**  
**Sources of Information Used to Gain An**  
**Understanding Of Oil Industry Product/Service**  
**Requirements**

<b>Description</b>	<b>Supply/Service (Percent)</b>	<b>Service (Percent)</b>	<b>Fabrication (Percent)</b>	<b>Total Sample (Percent)</b>
Attended Trade Shows	64	69	100	70
Consulted Trade Magazines and Industry Publications	82	63	33	67
Completed Vendor Questionnaires:				
Always	82	44	100	63
Usually	18	12	--	13
Never	--	31	--	17
Other	--	12	--	7
Membership in NOIA	73	63	33	63
Participated in Trade Missions/Visits Overseas	55	12	--	27
Attended Seminars/ Conferences	27	19	--	20
Staff/Partners have knowledge and experience related to oil industry	45	31	33	37
Formed Joint Venture and/or partnership	--	12	--	7
Participated as Subcontractor on Oil Industry Contract	--	12	--	7
Conducted Research/ Study(ies)	9	25	--	17

Source: Atlantic Consulting Economists Limited

yet other cases, respondents maintained their needs and problems related to the offshore were not common to the other business people attending these gatherings. These latter respondents were usually representatives of large companies.

Clearly, there is no concensus on the merits of the various means available to gather information. As in other cases, use of any particular method depends on the specific needs of the company. The nature and degree of importance of these needs is invariably a function of the company's size and the resources available to it.

## **Identifying Opportunities**

The most common means of identifying opportunities is reliance upon in-house experience and knowledge of oil industry requirements (Table 2). The second most common method is application of in-house knowledge to the general market for the company's product/service. In this instance, the local company would use its knowledge of the market for its product/service coupled with its understanding of the oil industry to determine how its product/service can be used by the oil industry. All other methods are of relatively minor importance. Clearly, the success of any one method is inextricably linked to the methods employed to understand oil industry product/service requirements. If the methods employed to glean an understanding of the industry are ineffective, then the evaluation of efforts to gain contracts will be reduced.

Of additional interest is how commercial opportunities are identified by companies established wholly or mainly to serve the offshore and those established to principally serve other markets. Table 2 indicates the former companies employ in-house experience and knowledge of the oil industry, as well as of the general market for their product or service. These companies also tend to contact potential buyer's directly. The latter group of companies, in contrast, do not rely on any preferred method.

## **Marketing Effort**

The level of marketing effort by a given local company can be generally characterized as aggressive or passive. The former includes conducting seminars/presentations for oil industry representatives, regular and frequent telephone calls, face-to-face meetings, and providing up to date information on company capabilities and product(s)/service(s) relevant to the offshore. Passive strategies generally involve occasional telephone inquiries to oil industry representatives with little or no "follow up" initiative. In many cases, a passive marketing approach was by design: the local company had no intention of (significantly) increasing its involvement in the offshore. The main reasons for this include:

- The local company was well established in the fishing, construction or newsprint industry. For these companies, the price of increased participation in the offshore, given existing production/supply capacity, was a reduction in resources used to service these traditional and more stable markets.

**Table 2**  
**Means of Identifying Commercial Opportunities Related  
to the Offshore Energy Sector**

<u>Description</u>	<u>Mainly Offshore (Percent)</u>	<u>Other Markets (Percent)</u>	<u>Total Sample (Percent)</u>
Conducted Formal In-House Study	7	13	10
Commissioned Formal Study	14	6	10
Contacted Buyers	21	13	23
Relied on In-House Experience and Knowledge of Oil Industry Requirements	43	13	50
Used Knowledge of Market for Product/Service	43	13	43
Relied on Instinct	--	13	3
Received Inquiries from Oil Industry Companies	--	13	13
Observed Current Market Trends and Conditions	7	6	7
Observed What Competitors Were Doing	7	6	3
Observed What Was Happening in Offshore Energy Developments Elsewhere	--	6	13
Attended Trade Shows	--	6	3

Source: Atlantic Consulting Economists Limited

- The scope and extent of opportunities was perceived to be limited and not warranting great expense of resources for marketing purposes.
- The local company representative had a "bad experience" in his/her dealings with oil industry personnel. Disillusioned, they decided not to pursue opportunities unless they were clearly attainable.
- The local company representatives found the risk associated with the offshore energy sector to be unacceptably high. They believed pursuit of this market could jeopardize the long term viability of their existing operation.

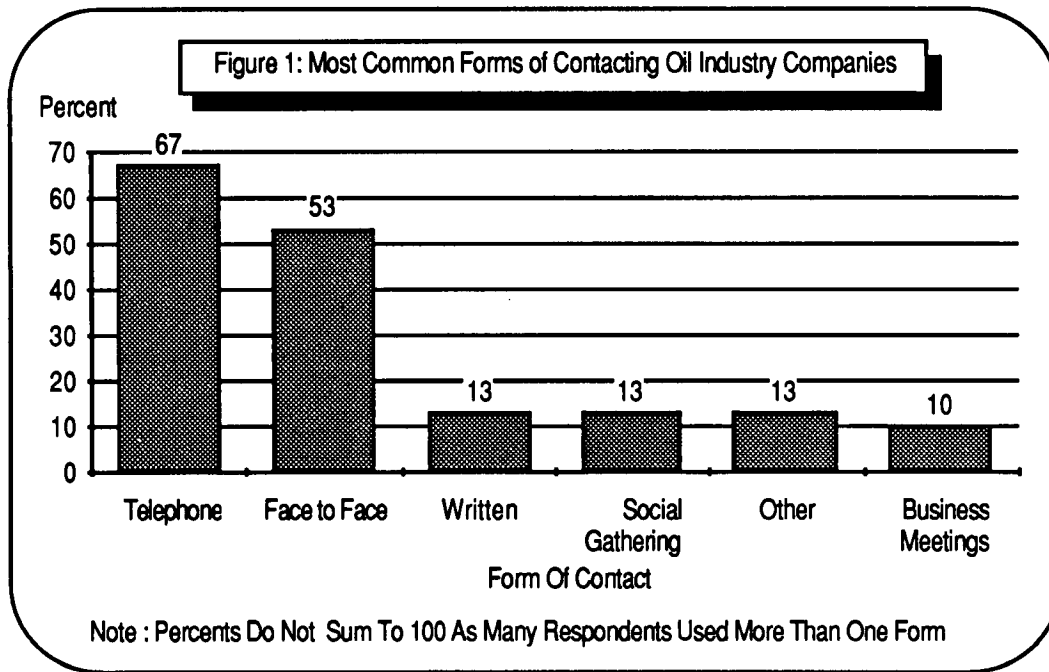
The majority of companies surveyed considered the quality of their work to be the most important advertisement for their products and services. Undertaking quality workmanship reliably, quickly and efficiently is regarded as a prerequisite to obtaining further contracts. Providing such service is said to require dedicated, well trained and professional staff.

## Contacts

Most respondents believe frequent personal contact with oil industry representatives and government officials plays a crucial role in developing opportunities. Yet, 33 percent maintain very infrequent contact if any at all. For these companies, the level of communication with oil industry representatives depends on the level of offshore activity: if offshore activity increases, so does communication with oil industry companies. Of the remaining 67 percent, 10 percent maintain contact on a daily basis, 33 percent at least once a week, 7 percent, fortnightly, and 17 percent, at least once a month.

The occupational position of the contact within the oil industry varied. Those cited include: engineers, logistics managers, purchasing managers, and area managers. In most instances, respondents noted the importance of contacting the right person; the one who makes direct purchasing decisions or the individual(s) using the local company's products/services and who can influence the decision maker to purchase these products and services.

Two-thirds of all companies surveyed maintain contact principally by telephone. Person-to-person meetings in a formal setting is the second most popular method. These meetings usually occur in the oil industry representative's office, but, in some instances, the industry representative is invited to visit the office of the local company. Written communication includes sending letters of introduction, complete with details on the local company's products, services and capabilities to oil industry representatives. Social gatherings cited include NOIA luncheons and St. John's Board of Trade socials. Business meetings include COGLA meetings and various other board meetings. Others include trade shows, seminars and presentations, and instances when local companies are usually contacted directly by oil industry companies. (See Figure 1).



Source: Atlantic Consulting Economists Limited

For most respondents, fostering these contacts constitutes part of what is referred to as "an aggressive marketing strategy"; indeed, many respondents considering themselves successful in realizing commercial opportunities attributed this success (largely) to their ongoing contact with oil industry representatives. Several respondents also indicated the importance of not limiting contact to oil industry companies, but to include contacts with engineering and construction companies dealing directly with oil industry companies as these also constitute potential markets.

## Debriefing

As a matter of policy, the oil companies will debrief those submitting unsuccessful contract bids to outline how their bids were deficient. The debriefing process can take many forms. Many companies will simply phone the appropriate oil industry representative and request information on why a bid was not successful, while others will request face to face meetings. Local companies tend to rely on the same form of debriefing process over time.

Just under half of the local business respondents indicated they "always requested" some form of debriefing. Seventeen percent requested debriefings occasionally and 36 percent never requested debriefing.

The merit of debriefing is perceived differently. Of those requesting debriefings, 47 percent indicated they were beneficial while 37 percent regarded them to be "somewhat beneficial" and 16 percent considered them to be of little benefit. Many respondents requesting debriefings regard these sessions as a vital process in understanding how their company relates to the market afforded by the oil industry. For these companies,

debriefing provides valuable information often used in preparing subsequent bids. Those not requesting debriefings offered several explanations:

- The company never had to request a debriefing since it had either never lost a contract, or, had yet to bid on one.
- The industry's loyalty to (traditional) suppliers in Calgary hinders local companies from competing effectively. Oil industry representatives prefer to purchase from known suppliers with whom they have dealt for years rather than incur the risk of relying on an unknown local company.
- The real reasons for failing to win a contract are not revealed in the debriefing process. This is especially true when political influence is a factor. This type of influence is believed to be particularly common at the international level.
- The low probability of winning work with particular oil industry companies makes debriefing unproductive. This is usually the case when local companies bid for a contract with an oil industry company that is capable of undertaking the work through one of its subsidiaries: it is considered almost meaningless for a local company bidding on such a contract to request a debriefing.
- One respondent argued that the process can jeopardize business harmony with the client and, ultimately, the local company's prospects of securing future contracts.

### **Anticipating Oil Industry Requirements**

A few respondents believe anticipating future oil industry needs is an important dimension of an aggressive marketing strategy. The "art" of anticipation entails regular study and monitoring of oil industry activity worldwide. The methods used vary widely, but the purpose is simple: to identify future industry needs and match these to the (local) company's current and potential capabilities. The means selected are a function of the local companies resource base, and thus, vary in their degree of sophistication.

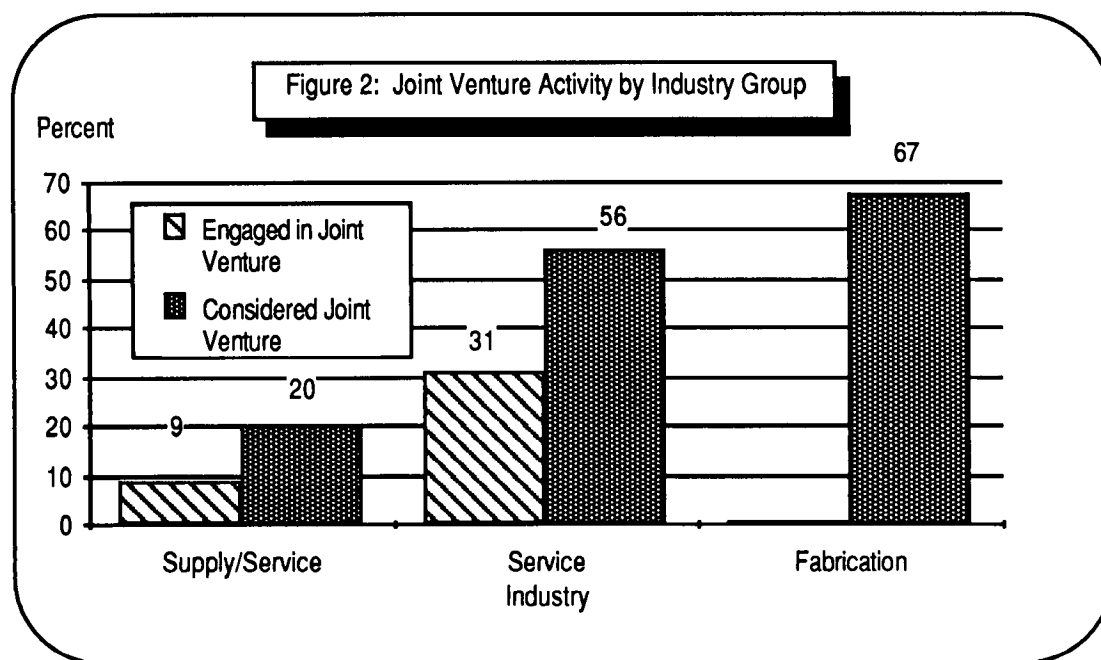
More basic methods include searching through oil industry company purchasing orders to identify the nature and value of potential opportunities. More sophisticated methods involve maintaining frequent contact with senior oil industry representatives in social as well as business capacities and forming joint ventures well in advance of offshore development activity. This latter approach is more common among larger local firms and has proven successful in winning contracts locally and abroad.

Anticipating industry requirements was not always successful. In several cases, companies prematurely increased production/service capacity by increasing investment in facilities and equipment. In most cases, newly acquired assets were sold to reduce debt as it became clear the development phase would be postponed indefinitely. The resulting financial loss served to heighten the sense of caution within many local companies.

## Joint Ventures

A few local companies, realizing they did not have the personnel, technical and/or financial resources to approach oil companies directly, approached other Canadian and/or foreign firms to establish a joint venture. The marketing strategy and efforts of these companies was orientated to potential business partners rather than oil industry companies. Joint ventures are deemed effective in securing international contracts; provincially, it is too early to determine the success of joint venture activity. Existing joint venture arrangements are at various degrees of development. Several other such arrangements are in the planning stages.

Twenty percent of all companies surveyed were engaged in a joint venture while 41 percent had considered a joint venture. Figure 2 shows joint venture activity is greatest among service companies: 31 percent of all service companies surveyed had established a joint venture while 56 percent had considered such an arrangement. Nine percent of supply/service companies were engaged in joint ventures and 20 percent had considered a joint venture. None of the Fabrication companies surveyed were engaged in joint ventures; 67 percent stated they had considered such an arrangement.

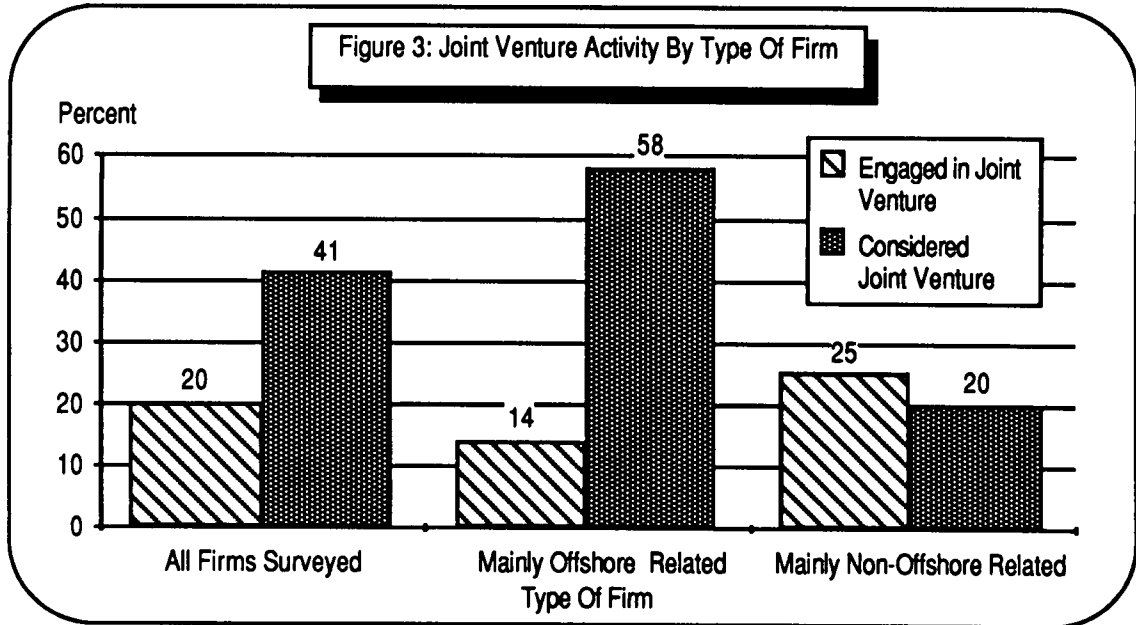


Source: Atlantic Consulting Economists Limited

Overall, joint venture activity is greatest among local companies established principally to serve traditional markets: 25 percent of companies in this group were engaged in joint venture arrangements while 20 percent had considered a joint venture (see Figure 3). Fourteen percent of companies established wholly or mainly to serve the offshore were engaged in a joint venture while 58 percent had considered doing so.



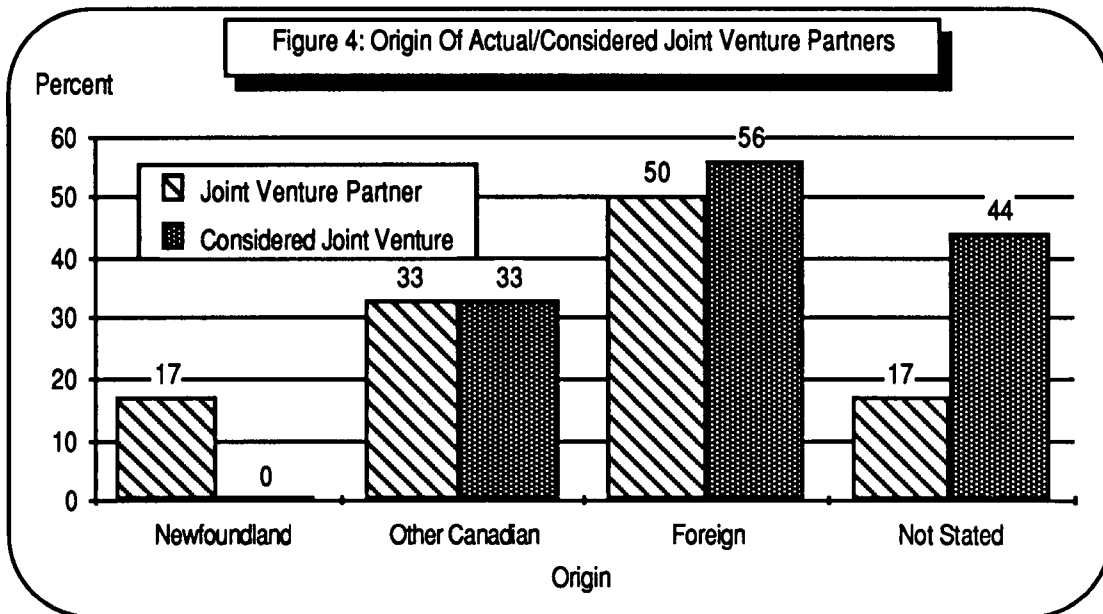
Fifty percent of local company joint ventures were with foreign firms - usually European (See Figure 4). Similarly, most respondents expressing interest in a joint venture indicated they had considered such an arrangement with a foreign firm. One third of all joint venture agreements were with other Canadian firms and only 17 percent with Newfoundland companies.



Source: Atlantic Consulting Economists Limited

Sixty-seven percent of companies engaged in joint ventures had established such an arrangement to gain access to markets. Fifty percent had done so to gain access to capital and 17 percent for access to experience and expertise.

Seventeen percent of all local companies engaged in joint ventures indicated the arrangement realized their expectations in a satisfactory fashion. Thirty three percent described their joint venture arrangement as very good, stating their expectations were being met favourably. One third indicated it was premature to assess the benefits of the arrangement service since no increase in offshore related business as a result of the joint venture had been realized. Seventeen percent indicated their joint venture had not functioned as expected. In this latter instance, joint ventures were terminated when the local company realized no appreciable increase in business from the arrangement. Nevertheless, these respondents stated that the joint venture was a valuable means for enabling entrance into the offshore market. Several respondents said it would have been more difficult, if not impossible, to enter the offshore market without the added experience of the joint venture partner.



Source: Atlantic Consulting Economists Limited

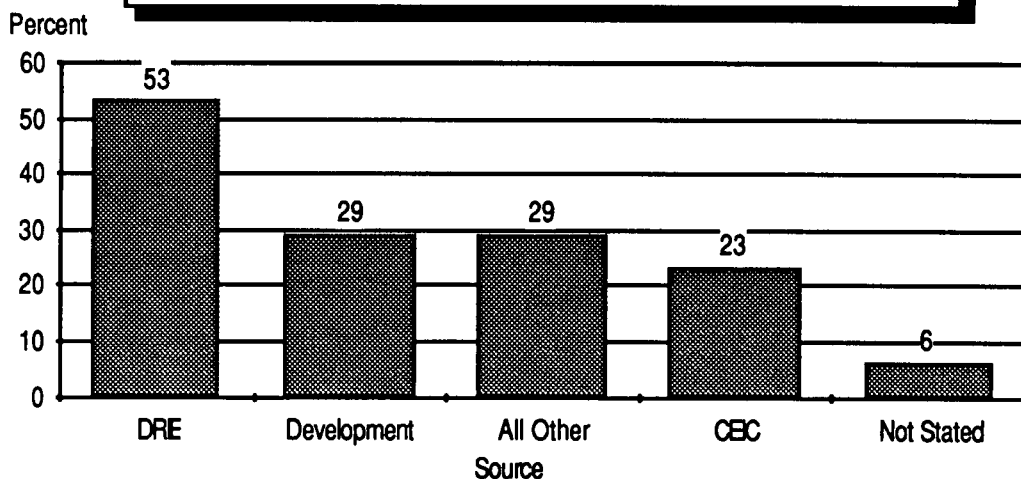
### Government Assistance

All fabrication companies surveyed received government financial assistance. Fifty-six percent of service companies did so while 45 percent of supply/service companies received assistance. Almost all respondents indicated their company had used government sources to obtain information on offshore related activity and business opportunities.

Fifty-three percent of all companies receiving government assistance did so from the Department of Regional Industrial Expansion; 29 percent from the Newfoundland Department of Development and 23 percent from Employment and Immigration. All Other refers to the National Research Council, the Department of Transportation, and Supply and Services. (See Figure 5).

Twenty-three percent of government assistance was in the form of financial aid for travel. (See Figure 6). On these occasions, assistance was used to participate in trade missions or attend trade shows outside the province. Eighteen percent of those companies that received government financial assistance used such assistance for the development of new products/services as well as for training purposes. Twelve percent of companies that received assistance indicated they used the assistance to produce marketing information on their company. Twenty-three percent of the companies that received government assistance did not state the purpose of requesting assistance.

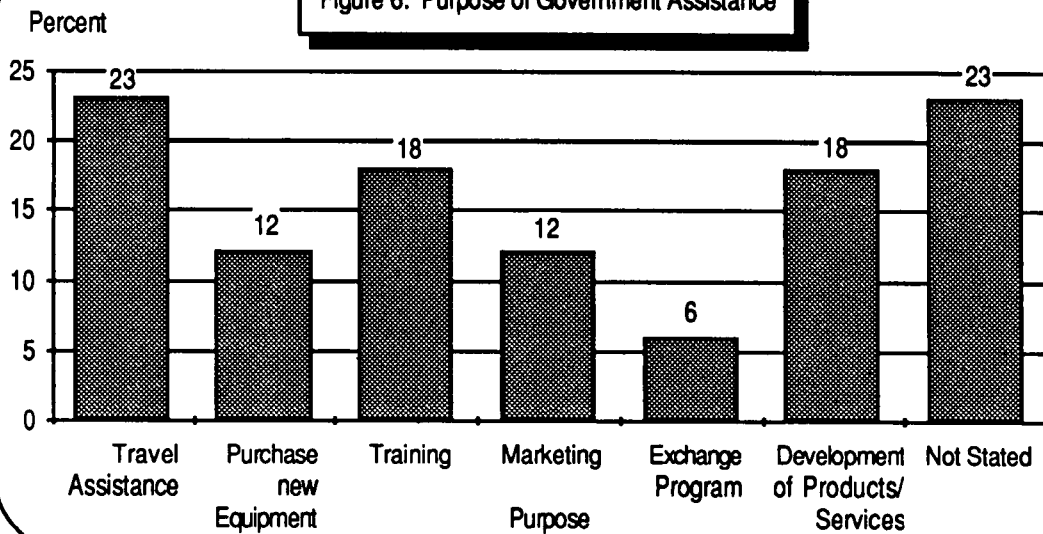
**Figure 5: Sources of Government Assistance Received By Local Firms Surveyed**



(Note: Several Firms Received Assistance From More Than One Source)

Source: Atlantic Consulting Economists Limited

**Figure 6: Purpose of Government Assistance**



Source: Atlantic Consulting Economists Limited

Companies established to principally serve traditional markets tend to use government assistance for travel purposes more so than companies established to serve the offshore. (See Table 3). Similarly, those established to serve traditional markets use

government assistance to purchase new equipment and for training of staff while their counterparts established for the offshore use government assistance mainly to develop new products and/or services related to the offshore. The latter also tend to use assistance for exchange programs while their counterparts established to serve traditional markets do not. Offshore-related companies also use a slightly greater proportion of government assistance for marketing purposes.

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**Table 3**  
**Purpose of Government Assistance by  
Local Companies' Market Orientation**

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<u>Description</u>	<u>Mainly Offshore</u> (Percent)	<u>Other Markets</u> (Percent)
Travel Assistance	14	30
Purchase New Equipment	---	20
Training	---	30
Marketing	14	10
Exchange Programs	14	---
Develop New Product(s)/ Service(s)	43	---
Not Stated	14	30

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Source: Atlantic Consulting Economists Limited

Overall, 53 percent of companies that received government assistance described their experience as favorable. In all such cases, government assistance permitted business investment that would normally have been postponed indefinitely or not undertaken at all in the absence of such funds. Twelve percent indicated they had a very good experience, while 35 percent indicated it was generally satisfactory. On average, those indicating a generally satisfactory experience maintained there was a need to improve some aspects of the various programs. To improve the effectiveness of these programs, it was suggested that government:

- **Speed up the delivery of programs.** Given the nature of the offshore business and the rapid speed with which decisions are made, government assistance must be delivered more quickly. For local companies requiring government assistance, the slow delivery of programs is regarded as seriously affecting competitiveness. The

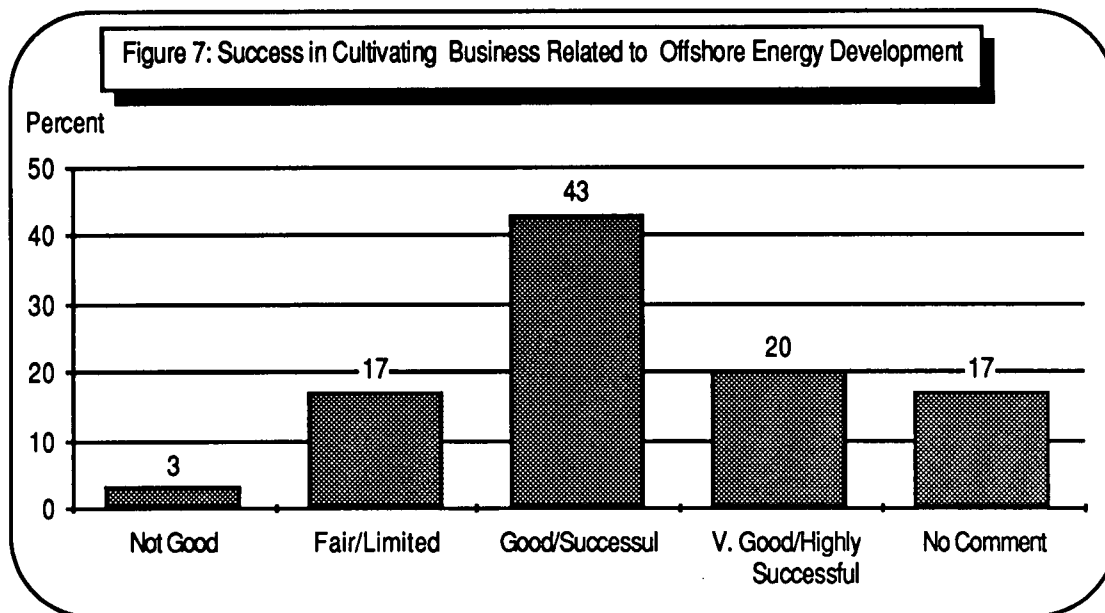
government's system of giving grants was singled out as a particularly slow process.

- **Lengthen the duration of some programs.** In most instances, these were manpower training programs. Government should collaborate with local companies to develop suitable training programs designed to improve labour skills and productivity. Such programs would have content and be of a duration mutually agreeable upon by both parties.
- **Exercise greater discretion in selecting local firms eligible for government financial assistance.** A few respondents believe government has given grants to companies that should not qualify for them. This has serious implications for competitors not availing of government assistance as those receiving assistance are afforded significant financial advantage that is often regarded as unfair by those companies that operate without government assistance.
- **Institute measures to fill the gap in the market for venture capital.** Other measures include government guaranteed loans and increasing the level of government subsidies to reflect the relatively higher level of risk involved in offshore related activity.

## **Evaluation of Effort**

Forty-three percent of companies surveyed described as good/favorable their success in realizing offshore business relative to the level of effort directed at developing such business. Twenty percent indicated their success was very good/highly successful. Figure 7 indicates only 3 percent felt their level of success was not favorable and 17 percent indicated it was fair to limited.

Overall, service companies were most pleased with their performance in obtaining business in the offshore market. Eighty-one percent of service companies rated their success from good to highly successful. These respondents believe the business benefits of the time and money invested in pursuing offshore-related business to be worthwhile. Only 6 percent indicated their success was fair. In contrast, 54 percent of supply/service companies described their success in the range of good to highly successful. Eighteen percent stated their success ranged from not good to fair. All fabrication companies surveyed indicated their success was fair.



Source: Atlantic Consulting Economists Limited

Sixty percent of respondents regarding their company's efforts as successful attributed the success to marketing efforts. The importance of maintaining frequent contact with the appropriate oil industry representative was highlighted repeatedly. Similarly, 60 percent cited the good quality of their service to be a significant contributing factor. These respondents highlighted the importance of reliability, promptness and being available to service the oil industry 24 hours a day, 7 days a week.

Those firms regarding their efforts as unsuccessful or as moderately successful offered several reasons for this, including:

- **The high mobility of oil industry representatives:** Representatives of oil industry companies frequently relocate, never staying for any significant length of time in one location. Under these conditions, it is difficult to establish a good business relationship where the oil industry representative is familiar with the local company's staff and the products/services it provides.
- **Adverse politics:** There is very little business etiquette in the oil industry. Contracts are frequently awarded to competitors for no apparent reason. In such cases, it is believed political influence unduly affects the natural outcome of the competitive process to the detriment of many local companies.
- **Unacceptably high risk:** The companies maintained only limited marketing effort focussed on offshore opportunities. This was a reflection of the unwillingness of companies to abandon the greater "security" of their more traditional and well established markets for the

sake of the offshore market and its greater associated risks. In many instances, this was by design: the result of a cautious business strategy aimed at preventing unrestrained pursuit of offshore opportunities. In light of the recent slowdown of offshore activity, many respondents regard this strategy as successful.

- **By design:** Marketing efforts directed at securing offshore opportunities were generally non-aggressive. In some cases, this is similar to the reason above and is a reflection of caution. In other cases, it is the result of what might be described as a general disinterest. In this latter case, the local company would be operating at or near capacity. Pursuing offshore business under this condition would require investment to increase company product/service capacity. Increased investment, at this time, is not in the plans of many companies owing to the recent downturn in activity and the considerable uncertainty.

## BARRIERS TO INCREASED INVOLVEMENT

Local business interests wishing to become involved, or increase their involvement as a contractor or supplier are faced with several barriers. The nature of these barriers and the difficulties encountered in overcoming them vary, depending on the type of product or service in question. Respondents were asked to indicate the degree of importance of several barriers. Those cited as the most important include:

**Competition:** Many goods and services required for offshore development are available on a world-wide basis. This international supply capability implies a substantial scale of operations, particularly for bulk materials, equipment and contracted services. By producing for the international market, suppliers of material and equipment are able to achieve long production runs and low unit costs. Needless to say, developing a scale of operations permitting competitiveness in such an environment is difficult, but not impossible.

Local companies have reacted to the high level of competition in two ways. First, several companies limited their involvement to formally bidding on offshore work but remained cautious and conservative in their pursuit of such work. These companies were mainly those established to serve markets other than the offshore market. The tendency was for these to maintain strong ties with their traditional market base. Secondly, many (other) companies are responsive to oil industry related opportunities in the face of strong competition. These companies invest considerable resources in research and development to modify and improve existing products and to develop new ones embodying new technology to respond to industry needs. Others purchase state of the art equipment to provide the best possible product or service. Not surprisingly, these latter companies are orientated wholly or mainly to the offshore market. These companies have several common denominators:

- *Professional staff:* They have highly trained professional staff with years of experience in their respective fields. The individual principals of these companies tend to have very specific areas of expertise which, by design, complement the expertise of their colleagues.
- *Vigorous Marketing:* These companies go after offshore-related business persistently: they know the market and pursue it, confidently applying sound and broad ranging marketing efforts.
- *Careful Planning:* Invariably, these companies have developed a formal business strategy and formal policy statements outlining their business objectives regarding the offshore.
- *Market Niche:* More recently established companies tend to have identified market niches through the accumulated years of experience of their principals. These niches were sometimes developed with the intention of diversifying into other related areas to increase overall involvement. Business expansion was measured to ensure growth was based on a sound stock of resources and expertise.



- **Joint Ventures:** These companies view joint ventures, partnerships or consortiums as natural steps in their company's development. Such arrangements have a clearly defined purpose and role in the company's business development.

**Capital Availability:** Participation in the markets for most goods and services requires capital investment. Capital requirements can range from the tens of thousands of dollars for, say, a trucking enterprise, to the hundreds of millions of dollars for entry to the drilling and offshore construction markets. In areas such as Newfoundland where access to capital is limited, local participation is also likely to be limited.

Several respondents noted the problem of securing financing from the banks. Banks are said to be averse to giving loans to local companies wishing to become involved or increase their involvement in offshore related activities. Several respondents indicated they had spoken to venture capitalists, but found the terms unacceptable. Others considered joint ventures, partnerships and consortiums as possible means of securing adequate funding.

Respondents who indicated financing is not a problem, generally rely on funding offshore-related operations with revenue from their other markets, rely on project financing (where the expected revenues will pay financing costs), or, establish joint ventures or partnerships.

**Technical expertise:** Most of the goods and services required for offshore exploration are highly specialized. Meeting accepted standards of quality and performance generally requires considerable experience. Since many of the products required have not been produced in Newfoundland before, many local companies lack experience and expertise.

Respondents regarding technical expertise as a problem, were usually those intending to expand into the offshore for the first time or diversifying their present involvement in the offshore. Depending on the nature of the new area of business, the greater the departure from the original involvement, the more important the need for new expertise. To offset this difficulty, some firms have begun to hire staff with suitable skills and experience. Others have, or are looking to, partnerships and joint ventures and/or to government-sponsored training programs. Those not planning to diversify from their current area of involvement do not consider technical expertise to be a problem.

The overall degree of importance of these barriers is shown in Table 4. Of interest is the confidence respondents have in the quality of their products and services. Ninety-six percent indicated meeting quality standards is not a very serious barrier to increased participation. Also, contrary to expectations, 88 percent indicated increased marketing requirements do not constitute a very important barrier, 75 percent indicated knowledge of industry requirements is not a serious problem, and 70 percent indicated market size is not a serious barrier.

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**Table 4**

**Barriers to Increased Participation in  
Commercial Opportunities Afforded by  
Offshore Energy Development**

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	<b>Perceived Importance</b>					
	<i>Not Very</i>		<i>Somewhat</i>		<i>Very</i>	
	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Capital Availability	14	48	6	21	9	31
Technical Capability	16	59	7	26	4	15
Technical Capability of Staff	14	50	9	32	5	18
Competition	12	43	10	36	6	21
Market Size	19	70	3	11	5	19
Knowledge of Oil Industry Requirements	21	75	3	11	4	14
Marketing	23	88	3	11	-	-
Quality of Product	25	96	1	4	-	-

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Source: Atlantic Consulting Economists Limited

## **KEY ELEMENTS OF SUCCESSFUL BUSINESS STRATEGIES**

Respondents were asked to comment on what they believe to be the most effective method of developing and realizing commercial opportunities within the oil industry. From the survey results, it is evident that no standard method or procedure exists. What is apparent are the general principles or rules which must be rigorously applied when pursuing offshore-related business opportunities. The method(s) chosen to foster opportunities within the framework of these principles can vary significantly in permutation and in degree of effort. The principles and what are perceived to be the most effective ways of adhering to them are discussed below.

### **Developing an Understanding of the Oil Industry**

Knowing what products and services the industry requires and how to earn the opportunity of supplying these is an essential prerequisite to doing business in the oil industry. Acquiring this information demands sound and thorough research techniques that quickly produce results on which to base informed business decisions.

There are many ways of gathering the necessary information. The quickest and most effective is direct contact with appropriate oil industry representative(s). Survey results clearly indicate there is no one particular individual within the industry that serves as the "best" contact for all local companies. It is, therefore, incumbent on local company representatives to actively seek out the individuals within the industry who are most familiar with the types of product(s)/service(s) the local company offers and, when warranted, those responsible for making purchasing decisions. Contact with these individuals should be made regularly and frequently. Even when there is little activity in the offshore sector, contact should be maintained to promote and strengthen business ties and increase the local company's credibility.

Information obtained from oil industry representatives should be supplemented with information from other sources to glean insight into alternative methods of production using the latest technology, as well as new products and new applications of existing products. Sources of such information include trade shows, participation in trade missions, exchange programmes and reading some of the many available publications.

This exercise in understanding the industry is, first and foremost, a means of gathering the critical information on which to base business decisions related to the offshore. It is not, in itself, the principal means of obtaining business opportunities.

## **Marketing Practices**

Contacts with industry representatives constitute an ideal opportunity to inform the industry of the local company's operation. The importance of this cannot be overstated. This applies equally during times when offshore activity has slowed.

Local company representatives should not restrict their contacts to the large oil companies. Every effort should be made to establish business relations with other local and non-local oil industry companies as these also constitute potential markets. In many instances, for example, small local companies would realize a greater probability of commercial success by promoting business ties with the larger established contracting companies, who, with their considerably greater resource bases and contacts, constitute very significant markets. Small local companies would do well to develop offshore-related market opportunities through ties with these contractors in addition to approaching the oil companies directly.

## **Developing Business**

Becoming well versed in oil industry purchasing procedures and product/service requirements and persistent promotion of product(s)/service(s) are only the first steps towards building an enduring and commercially successful relationship with the oil industry. Perhaps the most important aspect is what the local company does once receiving a contract since the local company's performance will ultimately determine whether it is awarded future contracts. Winning future work will require a sustained effort characterized by the following:

- **Quality Workmanship:** Work performed well, exactly as specified by the industry, is invaluable advertising. Such work is also the most important ingredient in establishing credibility as a supplier to the industry.
- **Promptness:** Products/services should be reliably delivered when needed by the industry. Failure in this regard will result in the industry seeking alternative suppliers. An important dimension of offering prompt, reliable service is being available to the industry 24 hours a day, 7 days a week. Assurance of this is considered mandatory by oil industry companies.

There are many means of satisfying these requirements. Those selected are ultimately a function of the size of the local company and the resources it is able to marshal.

## **VIEWS ON THE ROLE OF GOVERNMENT**

Respondents were invited to comment on how government could be of greater assistance in promoting local company involvement in the development of offshore energy. Most agreed government has some role though the views on the nature and extent of the role differed widely. (Several of these advocating government involvement indicated government should plan to eventually withdraw its involvement to allow local companies to develop independence). Those advocating no government involvement maintain government's agenda is primarily concerned with social development, and therefore fundamentally at odds with the business agenda of the oil industry.

Suggestions for improving government's role in increasing the level of local company involvement include:

### **Financial**

- Government assistance should always reflect the degree of risk inherent in the oil industry. For example, since developing new products for the offshore embodies a high degree of risk, government should be prepared to contribute at least 50 percent of research and product development costs. In addition, government guaranteed loans should be made available to service companies to offset what is perceived to be excessive collateral requirements by the banks.
- As mentioned above, government should play a role in filling the perceived deficiency in the market for investment capital. There are many good opportunities for research and development of new technologies, yet, investors in Newfoundland are principally risk averse. As a result, good companies with established track records and good ideas for investment fail to obtain capital for risky ventures. To balance this view, others indicated government needs to review its process of granting financial assistance. These respondents maintained that several local companies received government assistance when they should not have. It was suggested that this adversely affected competitive forces in the local business community by giving less competitive firms an advantage over more competitive firms.

### **Regulatory**

- Government should be more vigorous in its enforcement of the Canada/Newfoundland Benefits Plan, and insist oil industry companies use local companies whenever possible. These respondents stated oil companies are concerned with profit only: given free license, they will do whatever they want with complete disregard for the social and economic goals of the province.

- The present definition of Newfoundland content is inadequate and is believed to reduce the volume of business realized by some local companies. The problem is clearly seen in the following example. If a Newfoundland supply/service company purchases "non-local" products and sells these to a Newfoundland-based service company, there is no local content in the transaction but the supply/service company's profit. The same products would be considered 100 percent Newfoundland content should the service company then sell them to an oil company. Under such conditions, oil companies will tend to purchase products from the service company rather than the original supply/service company, since purchasing from the former satisfies Canadian/Newfoundland content requirements. Ameliorating this situation is regarded as a positive step towards improvement of the business climate related to offshore commercial opportunities.
- Government regulation should be introduced to control large crown corporations with monopoly or near monopoly power in particular business markets. The increasing size of these companies and their resources has made it increasingly difficult for small and medium sized establishments to compete effectively for offshore contracts. This was noted in the area of communications.

## **Information**

- Government has made many "uneducated" remarks regarding the offshore resulting in many local companies going out of business. These companies closed as a result of investment decisions made on the basis of government information and what has been described as "hype". Respondents maintain government can avoid this sensationalism by ensuring current and future government employees are well versed in the structure and requirements of the oil industry. The best solution is for government to hire individuals with proven knowledge, experience and expertise in this area.
- Government should enhance its role as provider of information related to offshore activity and investment opportunities by sponsoring more seminars and establishing close working relations with oil industry companies. In this way, government initiative and programs would act as a catalyst for local business growth and economic development related to the offshore by helping to bridge the information gap between oil industry companies and local companies.

## **VIEWS ON THE ROLE OF OIL INDUSTRY COMPANIES**

Many respondents did not comment on the role oil industry companies should play in enhancing local company participation. Those expressing their views made widely differing comments. They are categorized below.

### **Regulatory**

- Oil industry companies must adhere to the Canada/Newfoundland Benefits Plan. Moreover, they should give sufficient advance notice before taking important actions with implications for the (business) participation of local companies in offshore energy development.
- The oil industry is like any other business and oil industry companies should be permitted to operate free of government intervention. (This was a minority view). These respondents claimed Canadians, particularly Newfoundlanders, are too used to protectionism: they are not conditioned to the way oil industry people "get things done." These respondents believe dealing with oil industry companies effectively, requires a thorough understanding of the oil business. This understanding facilitates development of business strategies leading to contracts with the industry. These same respondents generally regard oil industry business decisions as good ones and insist oil industry companies will purchase locally if local companies can supply and meet the industry's product/service requirements competitively.
- There is a perceived need for a rational decision making process whereby local companies have an opportunity to directly influence oil industry purchasing decisions. Such a process would permit local company input into what can and should be purchased locally. This is considered important since many oil industry companies are believed to buy very few local products and services since the major purchasing decisions are made in corporate offices too far removed from the local business environment. One dimension of this is a very strong "old boy network" that results in the bulk of required purchases being made from companies with whom the oil industry has long standing business relationships. Some local companies believe the only way to operate in the offshore energy market under such conditions is to lower prices. Not surprisingly, most local companies cannot afford such a course of action.

## **Business**

- Oil industry companies should pay local companies a fair price for the quality products and services local companies provide. A few local companies, for example, have obtained contracts by submitting what many respondents regard as unrealistically low bids. Many respondents claimed they are unable to compete against these "artificially" low bids. Some companies are reportedly in financial difficulty since the slowdown in offshore activity as a result of these low bidding practices.
- Oil industry companies should buy more from local companies. Local companies concede oil industry companies should not be required to pay exorbitant prices, but they should buy the local products and services if the prices of these are only 2 to 3 percent more than non-local goods.
- The oil industry "frequently interferes" with how a local company attempts to fulfill an industry contract. The respondent voicing this concern was adamant that once awarded a contract the local company be permitted to complete it free from undue oil industry influence.
- Several respondents believe the oil industry could have done much more to generate employment in Newfoundland. For example, the industry could have equipment assembled in Newfoundland rather than outside the province.

## **Information**

- The industry must be explicit about all specifications of the products and services it requires, particularly the types of products/service(s) required, the quantity and over what time period.

The local business community requires a reasonable lead time to prepare for offshore related activity. Current lead time is considered insufficient in view of the high cost, high risk and great uncertainty associated with supplying the industry's needs.



## CONCLUDING OBSERVATIONS

Several themes have emerged from the local company survey results. In many respects, they are self evident: they amount to what the local business community has known for some time. Yet, all too often, what is commonly accepted as a "self-evident truth" serves as a rationalization for indolence or, at the very least, generates activity characterized by inefficacy. Some may claim this is the case with regard to local company participation in the offshore: local companies are not doing enough to realize the opportunities available. In fact, this is generally not the case. A review of the survey results indicates the business decision to become involved in the offshore as well as the extent of involvement is the result of carefully weighing many seemingly simple, but complex factors (i.e., the business and general economic environment, market conditions, the aspirations and personalities of those making the major decisions affecting the company, and government policy). The elements of each of these varies tremendously. With due consideration to each, the local business person performs the mental calculus on which to base the decision to pursue the offshore. Once the decision is made, a form of business strategy is struck. From the survey of local companies, the following themes emerged:

- **Commitment:** Commitment is a keystone. Based on its commitment, a company will exercise initiative, will be creative, will strive for high levels of performance and will be conscious of the need to be responsive amid the vagaries of an industry that calls for caution. The survey results indicate quite clearly that those companies wholly or mainly oil industry related have a greater degree of commitment to the offshore than do those established primarily for other markets.
- **Choice of Strategies:** There is no one strategy ideally suited to the needs of all local companies. The business sector is, by its very nature, dynamic. Operating successfully in such an environment calls for careful judgement and sometimes immediate responses. A key to such operations is the ability to quickly adapt to use measures most apt to meet company needs at any given moment. Notwithstanding, is the need to adhere to sound business principles and practices in areas of marketing and business development. Companies more "successful" in the offshore employ such strategies in a thorough, vigorous, timely and persistent manner.
- **Reality:** Despite the best of business plans, the most comprehensive of information bases, persistent application of sound business practices, and demonstrated capability, a local company may still realize only limited success in obtaining offshore commercial contracts. The reasons are many and include, among other reasons, the preferences of individuals within various companies, local, national and international politics, a changing economic environment, and poorly timed or inappropriate and poorly designed government policies and programs.

**PART TWO**  
**OIL INDUSTRY'S ASSESSMENT OF LOCAL  
COMPANY BUSINESS PRACTICES**

## INTRODUCTION

This part of the report documents the assessment made by oil industry representatives of local company business practices related to commercial opportunities in the offshore energy sector. The purpose of this documentation is twofold:

- to ascertain the experience oil industry companies have had with local companies attempting to participate in the commercial opportunities afforded by offshore energy development; and,
- to obtain candid opinions from representatives of oil industry companies on how local companies could successfully increase their participation in the opportunities associated with development.

### Background

Oil company procedures to procure products and services are generally well defined. Purchasing requirements exceeding an established value usually follow a formal tendering procedure. This value differs between companies and is generally in the range of three to twenty-five thousand dollars. Tender requirements are occasionally waived when the required equipment is highly specialized and technical, or very costly. Such is the case with well heads and the tools needed to support them. Oil companies generally submit repeat orders from manufacturers with whom they have had a good business relationship.

Oil companies prepare lists of potential suppliers based on their experience (with suppliers) and the recommendations of the provincial government. In most cases, the major national and international service companies are on these lists. A review of potential suppliers' capabilities and evaluations of recent performance is also undertaken. This information is updated frequently through the use of standard vendor questionnaires.

Drilling contractors use a different procedure to procure products and services. Since the value of purchases made by drilling contractors is generally less than ten thousand dollars, the formal tendering process is rarely used. The only exceptions to this general practice are the purchase of anchor chain and drill pipe.

Selecting a particular company to supply a product or service is based on a number of criteria employed by all oil industry companies: quality, overall price, delivery, service and related experience. Most respondents consider price to be important, but not the most important criteria. In many instances quality and reliability are considered before price: quality, it is argued, reduces risk while price, in itself, does not. In certain instances the acceptable price can vary over a range. Standards of quality and reliability cannot vary.

## OIL INDUSTRY OBSERVATIONS

On average, respondents considered the products/services of local companies to be of good or very good quality. In terms of reliability and price competitiveness, local companies are rated from fair to good. Several respondents stated the reliability of local companies had improved significantly in the past few years as local companies' experience with the oil industry increased.

The larger local companies tend to be more versed in the needs of the oil industry, making them more responsive to industry demands. Smaller companies, on the other hand, have generally incomplete knowledge of the industry's structure, its business practices and product/service requirements. Smaller companies therefore tend to inadequately adjust to the demands of the industry.

There is a noticeable difference between companies orientated wholly or mainly to oil industry related products/services and those only partly so. Those established wholly or mainly to service the oil industry tend to be more informed of the industry's structure, policies and procedures and product/service requirements. These same companies generally realize a higher degree of success in bidding for oil industry contracts. Local companies with diversified market bases tend to be less aggressive in attempting to secure such contracts, preferring to maintain their emphasis on more traditional markets and areas of experience and expertise to minimize risk.

Oil industry representatives perceive several significant barriers to local companies attempting to secure industry contracts:

- **A lack of information on potential industry projects:** Respondents noted their need to keep some information confidential. Owing to the competitive environment they operate in, they can ill afford to keep local companies fully informed of their business plans and related decisions.
- **Lack of capital:** Local companies can be described as small to medium sized establishments. Many have small operating margins, small equity bases and relatively limited borrowing power. Such financial conditions make pursuit of some forms of oil industry business extremely risky. Lessening the potential effects of such high risk could be realized by improving access to capital.
- **Breaking into the oil industry's "old boy network":** Oil companies have long standing business relationships with large well established national and international service companies in Canada and abroad. Oil companies prefer to deal with these service companies as they are known and have demonstrated their ability to meet industry specifications. The oil companies' relationships with these service companies have resulted in an effective and efficient business network that borders on tradition: breaking into this network to become a supplier is a formidable task.

- **Lack of transportation infrastructure:** This has resulted in difficulties maintaining sufficient inventories. Poor transportation infrastructure prevents low cost and efficient transportation of goods. Holding large inventories to offset this problem is too costly. The industry's unpredictable levels of demand only exacerbate the problem.
- **Lack of experience related to oil industry business:** Many of the skills needed to participate in oil industry business are highly technical and complex and have not been previously required by Newfoundland companies. As such, there is no experienced supply of this expertise in the province. This lack of experience is a common feature in many facets of oil industry operations with potential for local business involvement.

Respondents suggested various ways local companies seeking access to industry contracts can improve the likelihood of success. Nevertheless, they acknowledge these suggestions will not enable local companies to overcome all of the above barriers.

- **Increase in-house knowledge and familiarity with the industry.** This can be accomplished through reading industry publications, attending trade shows, using government supplied information, using company profiles and purchasing personnel.
- **Always request debriefings when appropriate.** This is deemed an important method of identifying problems with local company bid submissions and as a first step in developing solutions to overcome these for use in subsequent bids.
- **Undertake thorough market research.** Such research is based on sound research methods to determine the nature and extent of potential commercial opportunities related to development of offshore energy.
- **Establish and maintain frequent contact with appropriate oil industry personnel.** This is perceived to be a vital ingredient in establishing a business relationship with the industry.
- **Avoid the tendency to overspecialize.** Overspecialization can lead to vulnerability in the face of fluctuating market conditions. (Ironically, this lack of specialization was perceived by oil industry representatives as being a principal reason for a lack of local company aggressiveness in seeking industry contracts).
- **Hire personnel with suitable skills and expertise.** Staff at all levels within the company should be fully trained. Possessing appropriate technical and management expertise is a fundamental prerequisite for dealing effectively with the exacting and rigorous demands of the oil industry.
- **Secure access to adequate funding.** Local companies with financial stability, a sound equity base and favourable borrowing power will have an advantage over those with low equity and low borrowing power. Several respondents noted that a lack of capital and high cost

structures has led to a general lack of marketing aggressiveness in many local companies.

- **Be persistent and aggressive in marketing efforts.** General marketing practices of local companies are perceived to be less aggressive than those of similar companies elsewhere in Canada. (It was also recognized that the recent slowdown of exploration activity would naturally lead to reduced marketing efforts by some local companies).
- **Maintain contact with the oil industry.** Generally, few local company representatives directly approach oil industry firms seeking information on industry projects and requirements. Respondents indicated only five to ten percent of local companies do so.

Respondents noted that companies successful in their dealings with oil industry companies have adopted key business habits and strategies. Among the more common are:

- **Entering offshore energy related markets slowly.** Successful local companies carefully developed a market niche while simultaneously cultivating a diversified client base.
- **Attending debriefing sessions.** This was an effective means of identifying problems with bid submissions and afforded an opportunity to inquire as to how the quality of bids could be improved.
- **Hiring well trained, highly competent individuals.** In all instances these individuals possessed suitably extensive expertise and experience related to the oil industry.
- **Participating in trade shows and trade missions.** This is part of an overall opportunity identification process. (In many instances, seeing what similar firms have done elsewhere exerts a strong influence on local company opportunity identification).
- **Seeking government assistance.** This is especially important in obtaining information on offshore activity, to more clearly define commercial opportunities, and to learn the procedures to follow in pursuing such opportunities.

## THE ROLE OF OIL INDUSTRY COMPANIES

All respondents maintained their company had expended significant time and effort to educate local companies on oil industry requirements for the exploration, development and production phases. The more common efforts include:

- Becoming a member of the Newfoundland Ocean Industries Association.
- Distributing information on the Canadian Market Opportunities Program. (No local business respondent indicated this manual was helpful in realizing business).
- Conducting seminars province-wide.
- Participating in trade shows.
- Circulating vendor questionnaires
- Attending government reviews and presentations on offshore activity.
- Publishing company profiles, complete with major sub-contractor listings.
- Holding meetings with various associations and groups as well as all personnel from local companies interested in discussing opportunities.

All respondents believed the industry's efforts to educate and inform local companies have been successful. Potential improvements in the measure of realized success are believed to be limited mainly by the cautious approach taken by local companies and the general vagaries characteristic of the oil business.

Respondents were unable to assess whether the local business community was prepared to participate in the commercial opportunities afforded by the development phase. In addition, some respondents maintained the oil industry should not attempt to educate local companies on such opportunities as such information would fuel already unrealistically high business expectations.

## **THE ROLE OF GOVERNMENT**

Most respondents suggested government was too involved in oil industry decision making related to purchasing. While all concurred fair and full access is desirable, government is believed to scrutinize the oil industry too frequently in pursuit of this goal: indeed, it was noted that few industries are subject to the same degree of observation. Several respondents claimed this degree of observation is not necessary as the oil industry was sensitive to the issue of local participation prior to government becoming involved.

Most indicated approval (in principal) of government trying to enhance participation by local firms, but maintained that government exceeds acceptable limits when it intervenes on behalf of local companies failing to win contracts with oil industry companies. It was stressed that such efforts should be tempered by reality: only local companies with appropriate resources and skills should be encouraged and care should be taken so as to not inflate expectations unrealistically.

It was suggested that government's role is best defined as one of stimulating entrepreneurship by fostering a business climate and environment suitable for business growth in offshore related matters.



## CONCLUDING OBSERVATIONS

The comments made by oil industry respondents corroborate many of the replies given by members of the local business community. This is particularly true in terms of the need for knowledge of the industry's structure and to be informed with up-to-date pertinent information regarding the nature and extent of commercial opportunities.

Both local business and oil industry people are keenly aware of the difficulty (small) local companies will have realizing commercial success in the development of the offshore. The reasons, as have been discussed, are many and complex. Clearly, attempts to eliminate many of these problems through government legislation may (unduly) hamper any existing efficient free market decisions and actions. Yet, paradoxically, there is undoubtedly a perceived need for government intervention to fill the void in the marketplace between the needs and objectives of the oil industry, the needs and objectives of local companies, and the desire of government to maximize the social-economic benefits to society as a whole.

Balancing these different objectives is unquestionably a tremendously difficult task that will take time if it is to be carried out effectively from the viewpoints of the three principal interests. (The U.K. experience should not be viewed as the typical model in this regard, as the U.K.'s offshore was developed very quickly in the face of economic circumstances quite different from those faced by Canada). Whatever the measures used to strike the needed balance, it is axiomatic that the free exchange of information between all parties concerned is of paramount importance. Without this information, rational business and economic decisions that maximize the returns from the resource cannot begin to be realized.

**PART THREE**  
**APPENDICES**

## **APPENDIX 1**

### **Comparison with a Similar Nova Scotia Survey**

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**Appendix 1**  
**Comparison of Selected Responses of a**  
**Similar Nova Scotia Study**

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	Nova Scotia Survey (Percent)	Newfoundland Survey (Percent)
Had Visited Oil Companies	70	57
Had Visited Drilling Contracting Firms	59	63
Did Establish a Joint Venture	17	20
Considered Establishing a Joint Venture	55	41
Did Request Debriefing on Lost Bids	62	64
Considered Their Efforts to Secure Offshore Business as Successful	61	43
Are Satisfied with Government Programmes Available to Local Companies Developing Offshore Related Business	53	(a)
Complete and Return All Vendor Questionnaires	81	63
Complete and Return Some Vendor Questionnaires	11	13
Do Not Complete and Return Any Vendor Questionnaires	8	17

Notes: The results shown are those of a 1984 Nova Scotia Survey undertaken by the Canada Oil and Gas Lands Administration and the Nova Scotia Department of Development. The purpose of this survey was to increase general awareness of local business involvement in the offshore oil industry. The sample of local companies surveyed were those members of the Cape Breton Offshore Trade Association and the Offshore Trade Association of Nova Scotia.

a) Overall, 53 percent of companies receiving government assistance described their experience as "good"; 12 percent indicate they had a very good experience; and 35 percent described their experience as generally satisfactory.

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**APPENDIX 2**  
**Sample Selection**

## **SAMPLE SELECTION**

### **Oil Industry Sample**

The terms of reference indicated forty oil industry companies in the study population. It was not possible to speak with representatives of many of these companies as the recent slowdown in offshore activity reduced the number of oil companies and drilling contractors currently operating from Newfoundland. A representative sample of five oil industry companies was selected in consultation with the Scientific Advisor. Letters of introduction were sent to the area managers outlining the study objectives and requesting an interview. All interviews were conducted in person using the structured interview guide shown.

### **Local Company Sample**

The terms of reference indicated approximately eighty local companies - defined as being at least 50 percent Newfoundland owned - in the study population. A representative sample was drawn in cooperation with the Scientific Advisor. Care was taken to ensure the sample was representative in terms of industry group, company size, structure and location. Due to difficulties in arranging interviews with representatives from some companies, the sample had to be revised to what is shown. The final number of local companies surveyed was determined in consultation with the Scientific Advisor.

**APPENDIX 3**  
**Oil Industry Interview Guide**

**INTERVIEW GUIDE  
FOR  
OIL INDUSTRY REPRESENTATIVES**

Company Name:

Address:

Telephone Number:

Contact(s):

Introduction

Interviewer will provide an overview of study and answer any initial questions.

Questionnaire

1. Describe the procurement process of your company with specific reference to:

a) Whether a tendering process is always used.

b) How bid lists are developed and firms selected for inclusions on bid lists.

c) The criteria for selecting the company offering best value.



2. a) How would you rate the products and/or services produced by local business for the offshore business sector in terms of quality, reliability and price competitiveness?

b) Can you elaborate as to the reasons for your impressions?

c) Are your impressions generally the same for all suppliers or are there discrepancies in performance amongst different industry groups? Please elaborate giving example.

d) How do you rank the price, reliability, service quality criteria in terms of importance? (Please Explain.)

3. a) Can you offer an opinion on how local firms compare with similar firms in Britain and Norway in terms of product quality, reliability of service and price competitiveness?

b) Can you offer reasons why Newfoundland firms perform better or worse than those in other areas?

4. a) In your opinion, what are the most significant problems confronting Newfoundland firms in their attempts to secure contracts with the oil industry?  
  
b) Do you believe local firms have been sufficiently aggressive in their efforts to secure offshore energy related contracts? If not, why do you think local businesses are not more aggressive?
  
5. How have some firms overcome any problems and difficulties?
  
6. a) What suggestions can you offer local firms attempting to overcome the problems now inhibiting their ability to secure oil related business?  
  
b) Do you have suggestions for government?
  
7. a) How have local companies demonstrated an interest in learning how they can become more successful in securing offshore energy related contracts?  
  
b) Approximately what percentage of local firms bidding on contracts seek guidance from your company?  
  
c) What role has your company played in educating local business about industry requirements for exploration, development and production phases?
  
8. Do you believe industry education has been successful in enabling local business to compete effectively for contracts? What, do you believe, is limiting the success of your company's efforts in this regard?



**OTHER COMMENTS:**

**APPENDIX 4**  
**Local Company Interview Guide**

## INTERVIEW GUIDE FOR LOCAL BUSINESS

### COMPANY PROFILE

1. Name of Firm:
2. Nature of Business:
3. Address:
4. Telephone:
5. Contact:
6. Year Business Started:
7. Brief History of Company (Including how the company got involved with oil industry.  
Note: Milestones Only)
  
8. List this company and affiliated companies and indicate nature of business and whether Wholly Owned (W) or a Joint Venture (J).
  
  
9. Number of Employees  
(For Newfoundland operations of company in question #1)
  
  
10. Annual Payroll:  
(For Newfoundland operations of company in question #1)
  
  
11. What percent of your total revenue is derived from business generated by offshore oil activity?  
  
1984:            1985:            1986:  
  
Prior to 1984:







26. How has your company responded to the uncertainty associated with the various cycles of exploration activity, particularly the recent downturn in the industry?

Importance  
Not Very   Somewhat   Very

- a) Capital (Availability)
- b) Technological Capability
- c) Technical Capability of Staff
- d) Competition
- e) Market Size
- f) Knowledge of Requirements (Information)
- g) Marketing
- h) Quality of Product

28. How has your company adapted to or overcome these problems?

29. What are your future investment or expansion plans regarding the offshore, particularly those related to development and production?

30. Details on Joint Venture Relationships.

Joint Venture Co.	Partner	Partner Residence	Data Formed	Share Arrangements
_____	_____	_____	_____	_____

31. If you have engaged in joint venture arrangements, who initiated the development?

32. Why did you form a joint venture?

33. What are your opinions on the success to date of your joint venture arrangements?

## **POLICY ISSUES**

34. Given the problems you have outlined earlier, how can industry or government be of assistance to your company?

35. What government programs has your company availed of in relation to offshore business development? (Note: financial and non-financial assistance, also note the department)

36. Describe your experience with these programs, noting problems and positive features.

37. What do you believe to be the impact of federal and provincial policy on your business?

**APPENDIX 5**

**List of Those Interviewed**

## **PARTICIPANTS**

Buchingham, John  
Buckingham's Ltd.

Butler, Ivan  
Metal Fab Ltd.

Byrne, Jerry  
SEA Ltd.

Collins, Bernard  
P. F. Collins Customs  
Brokers Ltd.

Cooke, Dave  
Heap Noseworthy Ltd.

Cooper, Nat  
Harvey Offshore Services

Crane, Terry  
C & W Welding

Crosby, David  
Murray and Company Ltd.

Debourke, Patrick  
Grove Telecommunications

Dibbon, C  
The IMP Group

Didier, Carl  
Freshwater Bay Offshore  
Development Limited

Dyke, Bruce  
Offshore Atlantic

Fitzpatrick, Frank  
Fleet Service

Flood, Roger  
North Atlantic  
Contractors Limited

Whitten, Stephen  
Terra Nova Marine

Gaulton, Barrie  
Oilmove

Halliday, Bob  
Brown Offshore Ltd.

Hayward, Harold  
Newfoundland Tractor Trailer and  
Equipment Company Ltd.

James, Barrie  
Capital Crane

Jones, J. C.  
Sealand Helicopters Ltd.

Mayhew, Allan  
Grand Bank Catering

O'Donnell, Paul  
TAS Communications

O'Keefe, Frederick  
Eastern Technical Services Ltd

Oilerhead, Gus  
Atlantic Airways

Riggs, Niel  
National Petroleum and  
Marine Consultants

Ruelokke, Max  
Hydrospace Marine

Savage, John  
Tubecraft Atlantic Ltd.

Shinkle, Lee  
Reed Stenhouse

Tucker, Walter  
The BAE Group