Beat: Technology

OIL AND GAS COMPANIES AND RISKS THEY TAKE FOR INVESTORS

WHAT TO FACE TO BE SUCCESSFUL

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USPA NEWS - When an investor approaches a new industry, it is good to know what risks are possible to happen when the goal is success. General risks apply everywhere, such as management risk, but they are also more concentrated risks that affect that specific industry...

Roiled by global economic turmoil, wild competition, and mind-numbing swing, Energy Companies must be bold about transforming their business models. US Energy Information Administration estimates that in 2014, the increase in the global supply of petroleum and other liquid fuels was almost twice the increase in consumption. That was a recipe for lower prices and shrinking profits. Giants such as ExxoMobil, BP, Total, Chevron, Shell, which invested tens of billions in oil exploration when prices were high, did not enjoy a concomitant boost in production or profit margins.

They slimmed down by shelling unprofitable units and cutting back on investment but still face increased competition from state-owned oil Companies and independents. Meanwhile, robust new reserves, in numerous regions around the world are glutting the market. The traditional structural discipline was replaced by a sytemic imbalance marked by vastly increased supply and receding demand growth.

Points to take into account : global economic weakness ; tougher fuel economy regulations ; more viable forms of alternative energy ; development of extraordinarily engines on equipment as varied as cars, earthmovers and power plants. For the oil and gas companies (producers or refiners) the strategic future is still a puzzle. The questions are : where do we go to lock in demand and are we prepared to thrive in a business environment that is over supplied ?

Only a few Companies will successfully shore up demand and improve margins by consolidating their strongest assests. The picture is a little bit brighter in the gas sector. Global demand for natural gas is expected to rise and likely to continue. The mistake that they could make in this difficult business landscape, is to focus solely on reducing costs and spending. This strategy is effective only in a very narrow range of market conditions and rarely effective enough to make business successful over the long term. It just means that producers and refiners should be prepared and adopt strategies that take advantage of the new reality.

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