Entrepreneurship in oil and gas

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What, Why and How to Start and Build a Great Company in the Oil and Gas Industry

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Getting to know each other

What is your discipline?

Getting to know each other

What is your entrepreneurship experience?

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What is you career stage?

Getting to know each other

Where are you joining from?

What is entrepreneurship?

- Entrepreneurship is a process in which:
  - someone with limited resources
  - identifies an unmet need in the market (or a better way of doing something)
  - marshals the resources
  - and then creates and sells a product or service to meet it

Why shouldn't someone become an entrepreneur?

4 reasons not to start a company
Nearly all start-ups fail or fail to achieve the founder's goal
Entrepreneurship is among the loneliest professions
Responsibilities are unrelenting and you will be chronically understaffed by design
Entrepreneurship can eat your life and relationships

What personality traits should an entrepreneur have?

- Extreme Confidence (some would say naivete)
- Drive / Grit / Persistence
- Creativity
- Passion and ability to motivate others
- Ability to make hard choices
- High tolerance for risk
- Strong emotional support network

What does an entrepreneur do?

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Everything, including taking out the trash

What does an entrepreneur do?

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Phase	Activities
Defining and Developing the Business	*Setting strategic direction* by taking into account external opportunities and threats, the availability of internal resources relative to requirements, the aspirations and values of senior management, and obligations to stakeholders and society.
Marshalling the Resources to Execute	*Designing organizational structures and processes* that allocate responsibilities, promote cross-functional integration, recruit/develop/promote employees, acquire critical resources and financing, and budget/monitor financial performance.
Operating the Company	*Leading the firm* by: 1) making tough tradeoffs when setting strategy, resolving cross-functional conflict, and making hiring/firing decisions; and 2) communicating a vision that motivates employees and secures commitment from other stakeholders.

Adapted from Andrews, Kenneth. The Concept of Corporate Strategy. Irwin, 1971.
Source: Harvard Business School https://www.hbs.edu/faculty/units/em/Pages/curriculum.aspx

What does entrepreneurship look like in O&G?

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The oil and gas industry is characterized by

- Very slow pace of technology adoption
- Very high technical and safety requirements
- Very long sales cycles
- High cyclicality (boom and bust)
- Very high costs of capital

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What does entrepreneurship look like in Oil & Gas?

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These traits profoundly shape O&G entrepreneurship

Market Trait	Impact
Very slow pace of technology adoption	Biases innovation towards incrementalism
Very high technical and safety requirements	Impedes innovation in hardware-based businesses
Very long sales cycles	Requires higher efforts to fill the pipeline and keep opportunities moving – sales is a full time job at the start
High cyclicality	Must plan to survive at least one crash
Very high costs of capital	Entrepreneurial efforts rewarded more in other sectors with faster scalability

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Some Secular Themes Shaping our Industry

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The Great Crew Change

Each professional entering the industry replaces four who leave

New Frontiers

Human capital and infrastructure investments are needed in new geographies

Rapid Response

Pace at which shale resources can be extracted and their high decline rates means the industry will respond rapidly to small signals from supply demand balance curve

New Money

Well funded new entrants have moved quickly to develop new basins, causing initially a proliferation of players and now a new wave of consolidation

Arrival of Digital Fluency

Broad understanding of the value of data and the willingness to adopt technologies to extract such value

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How to start your entrepreneurial journey

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Find your idea → Find your partner → Find your customer → Find your capital

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How do I find (and refine) my idea?

- Keep a running list of unsolved problems you encounter
- Always ask, "Is there a better/faster/cheaper way to do this?"
- Ask a prospective customer what problems they need solved
- Goal is to:
  - Find a problem for which you have passion…
  - …AND the background that makes you the right person to solve it

How do I find (and refine) my idea?

What is your "unfair advantage?"

How do I choose my partner?

- Just like a marriage (because it is one), you must select for:
  - Trust
  - Ability to resolve conflict and solve problems
  - Complementarity of skills
  - Alignment of values

Why do I need a partner?

- Most investors won't seriously consider investing in a company unless it has two founders
- If you can't convince someone to join your team, you won't be able to convince investors or customers to back your idea

Finding a Customer, aka Product/Market Fit

“**Product/market fit** means being in a good **market** with a **product** that can satisfy that **market**.”

- Marc Andreessen

The “Lean Product Process”

Source: Dan Olsen, “The Lean Product Playbook” 2015

A word on pilot testing

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- Paid pilots of your technology provide enormous value to the early stage entrepreneur
  - Provides critical customer feedback to refine the product
  - Provides case studies and references to prospective investors
  - Proves that you can sell, and that your idea sells
  - Provides non-dilutive cash you can use to invest in further product development

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Should I raise external capital?

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Pros	Cons
External capital provides resources which can accelerate development or market entry of your product and or make key hires	Costs significant time; is essentially a full time job
If selected carefully, (i.e., not just for their check size), new investor can provide critical contacts and valuable advice	Dilutes founder ownership and distorts business model towards rapid growth
Accountable to investors	Accountable to investors

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How do I raise external equity capital?

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A spectrum of risk/return and stage of business

Seed/Angel Investors

Venture Capital

Private Equity

Source: https://corporatefinanceinstitute.com/resources/careers/jobs/private-equity-vs-venture-capital-vs-angel-seed/

How do I raise external equity capital?

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Seed / Angel Investors
- Friends, family, founders
- Dedicated angel investors and seed funds
- Don't forget grants

Venture Capital
- Professional VC funds with industry specialties and differing check sizes
- Highly networked raise process
- Get to know them before you need their money

Private Equity
- Large scale investment funds
- Generally provide $ to proven concepts + teams to scale already working models
- Can also seed a proven management team to "do it again"

Risk	Valuation	Quantum
Extremely high	Generally $1M-$5M	$500k-$2.5M (1-2 yrs of runway)
High	Generally $2M-$15M	$2-$20M
Moderate	10's of millions	All sizes from 10's of millions to billions

Some cautions

- Scale and profitability matter to O&G investors. Be thoughtful about when and how much capital you raise to assure you have enough capital to achieve scale
- Investors would much rather back an A+ team with a B- business plan than the reverse. Pick your team carefully
- Execution is easier with expertise. Make sure your founding team's skills cover all aspect of your early stage business plan

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Thank You

Questions?