

I. What is a Marketing Advisor/Consultant?

In today's competitive business environment, everyone wants "the best." Unfortunately, but realistically, not everyone can afford to pay for the full cost of having "the best." This is especially true for the typical Canadian junior gas producing company, which is often undercapitalized and cannot afford to internalize all of its functional needs.

Many junior gas producers have successfully applied outsourcing to other functional areas such as finance, management, law, land, geology, engineering and production accounting, as part of an overall corporate strategy called "network organizations." This innovative corporate strategy will be described and discussed in more detail later in this paper. A "producer-oriented" (as opposed to an "end-user oriented") Marketing Advisor or Marketing Consultant is a specialist in providing marketing services to junior gas producers on an "as-needed" basis. This provides junior gas producers with affordable access to "the best" at the critical early stages of the company's life.

a) Distinguishing Characteristics

Marketing Advisors have a number of characteristics that distinguish them from other players in the industry offering marketing services to junior gas producers. Marketing consulting is, in many ways, similar to management consulting, in that it is "an advisory service contracted for and provided to organizations by specially trained and qualified persons who assist, in an objective and independent manner, the client organization to identify management problems, analyze such problems, recommend solutions to these problems, and help, when requested, in the implementation of solutions."⁽¹⁾



The first characteristic, that being the advisory aspect of Marketing Advisors, is an extremely important point of differentiation. In other words, the “service” being provided and paid for is “advice”. The Marketing Advisor does not purchase and take title to the producer’s gas for resale, but only has its “time” to sell. Obviously, with only its time and advice to sell, the Marketing Advisor is highly motivated to ensure that its advice is valuable and worthwhile to the client. The importance of the advisory role has not gone unnoticed by the new age marketing companies. Many have added “advice” to their service offerings, often giving it away as a “loss leader” in order to attract the producer’s interest.

The Marketing Advisor should also not be confused with a “contract employee”, who takes its direction from the producer and simply executes the producer’s orders. Many larger producers will hire contract marketing professionals to provide certain transactional skills or services under the producer’s close supervision. In this situation, no “advice” is being provided by the contractor.

The second important characteristic of Marketing Advisors is objectivity. This simply means that the Marketing Advisor has no “hidden agenda” which might impact upon the quality of the advice being given to the producer. It is conceivable that the recommendations received from a marketing company *could* be based less on the producer’s needs and more on the marketing company’s needs to enter into a particular type of transaction, such as a “long position” in export pipeline capacity or short term fixed price markets in a rising local gas market. Alternatively, many individuals calling themselves Marketing Advisors are in fact only “between jobs” and wish to find a full time marketing position with a producer. Advice given by these individuals *could* often be self-serving. Consequently, producers need to identify and address the impact of these and other forms of conflict of interest on the objectivity of the advice being received.

Independence is the third important characteristic of Marketing Advisors, which directly impacts on the quality of the marketing recommendations provided to



producers. Independence implies the ability to consider a wider range of possible solutions to a particular marketing problem. For example, an independent Marketing Advisor is able to “shop” the marketplace looking for the best deal, whereas a marketing company may not be able to talk to one of its competitors about marketing a junior producer’s gas to them.

Finally, the fourth characteristic that truly sets the Marketing Advisor apart from the other marketing service providers is its ability and willingness to be “*closer to the customer*”, both “physically” and “mentally”. For example, it is common for Phoenix advisors to work alongside the producer’s staff in their offices, often sitting in temporarily unoccupied offices, meeting rooms or anywhere else that is available! The improvement in the communication and understanding of the producer’s “real needs” during the diagnostic (Problem Identification and Analysis) stage is immeasurable because of this close contact. Consequently, the advice (Recommendations and Solution Implementation) has a greater chance of being higher quality than that resulting from a more “distant” approach. It is highly unlikely that a marketing company would be prepared to invest that much time and effort in assisting the junior producer with such a customized diagnosis of its marketing problems.

b) Selection Criteria

The foregoing list of characteristics differentiate Marketing Advisors from other marketing service providers. It is, however, important to emphasize that not all Marketing Advisors are equally qualified. There are no minimum qualifications or certification requirements to become a Marketing Advisor; unlike other forms of professional services such as engineers, lawyers, accountants, etc. As a result, a wide range of expertise and service qualities exists. This poses an inevitable problem and challenge for junior producers. It is vital that junior producers recognize this fact and perform careful “due diligence” during their selection of a Marketing Advisor.



The three most important criteria to consider during the selection process are:

1. Reputation!
2. Reputation!!
3. Reputation!!!

The oil and gas industry in Western Canada is a close-knit community, where word of mouth advertising (referrals and endorsements) is a small producer's best source of information and is readily available.

Other criteria to include in your due diligence:

1. Experience (as a Marketing Advisor)
2. Experience (as a marketing professional)
3. Consulting Style/Process (directive vs. facilitating, diagnostic skills)
4. Resources (access to market information, analytical tools, manpower, etc.)
5. Range of Expertise and Services (gas, oil, NGL's, sulphur)
6. Education (formal)
7. Education (continuing?)
8. Associations and Business Contacts
9. Continuity/Career Aspirations (here today, gone tomorrow?)
10. Compensation for Services (structure and amount)

Too often I encounter junior producers who attempt to simplify their decision-making during the selection process by comparing on the basis of cost only. This implies that all of the other factors are either not important or "commoditized" (in terms of quantity and quality). Unfortunately, for the producers who "shortcut" the selection process, the other factors *are* important and marketing advice is far from being a generic commodity. Peter Munk, founder and chairman of Barrick Gold Corp., in a recent biographical book⁽²⁾, expressed the view: "If you have to worry about the consultants' pay, you shouldn't retain any."



c) Marketing Advisors as Facilitators

Marketing Advisors fall within a group of service industries categorized as “facilitator services”. Facilitators are defined as “experts for hire in their respective markets, bringing buyers and sellers together and advising both (either) buyer and seller.”⁽³⁾ The facilitator is distinct from the “merchandiser” (marketing company) in that it does not take possession of the product for resale.

In an imperfect marketplace, buyers and sellers do not have all of the information available and necessary to make intelligent decisions. The role of the facilitator becomes that of a market expert. This is especially true for the natural gas industry, where market information is extremely dynamic in nature and enormous in quantity.

Facilitators assist clients in three ways. First, the aggregation, management and dissemination of current and accurate market information is the vital core of a Marketing Advisor’s services. Even though it is feasible, most junior producers do not want to incur the expense associated with the collection of this information, nor do they have the time to review and digest all of it. Consequently, Marketing Advisors provide added value to the producer through the reduction in “market search” costs.

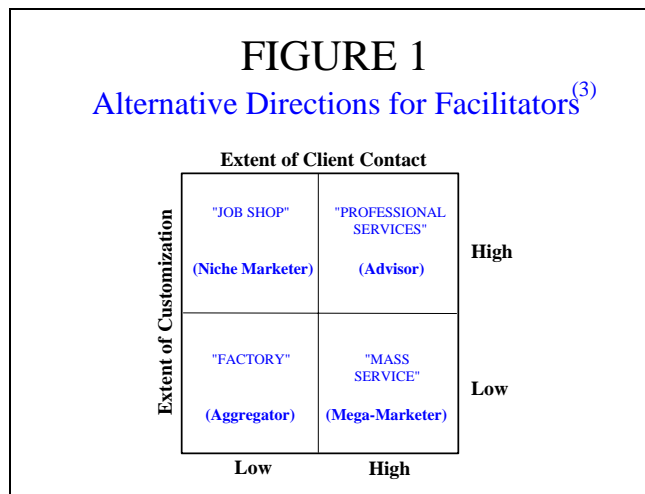
Secondly, today’s junior gas producer is more concerned with the evaluation of market information and receiving a recommendation as to an optimal course of action. This is the “advice” function which is the central theme of this paper. The Marketing Advisor’s role in providing market analysis and recommendations to a junior producer is to *reduce* the risk or chances of making a bad decision. Unfortunately, many junior producers’ expectations are that the Marketing Advisor can *eliminate* the risk of making a bad marketing decision and will be able to maximize their average gas price by “picking the top of the market”!



A critical element of this service is the level of customization involved in the recommendations. As mentioned previously, this is perhaps the aspect where a Marketing Advisor has an advantage over other marketing service providers, in that a Marketing Advisor will invest more time in “diagnosing” the junior producer’s “real” needs.

The third and final way facilitators provide service to clients is in the completion of the transaction. Marketing Advisors can assist in the negotiation and drafting of the necessary sales and transportation contracts, regulatory permit applications, etc. Time can be saved and many pitfalls avoided through the use of a Marketing Advisor’s experience in dealing with transaction paperwork.

A trend in other facilitator industries (e.g., stockbrokerage) is the move to standardization⁽³⁾. Many firms have identified the problem of employee turnover and the associated loss of clientele. In order to reduce the loss of clientele, the customer-contact process is being increasingly standardized and less personalized. In the natural gas marketing industry, a high level of mobility and staff turnover exists; it appears inevitable that larger marketing companies offering “producer services” will consider this strategy in order to retain junior producers. Unfortunately, this turns the relationship with a gas marketing company into more of a “mass service” experience, as opposed to a “professional service”, as illustrated in FIGURE 1.



II. What is the Role of Marketing in Junior Producers?

The mandate and roles of marketing within a junior producer can vary depending upon its ownership structure and the stage of growth. For private companies, the mandate often becomes the development of a marketing strategy to maximize the chances of achieving a minimum level of cash flow for reinvestment or a targeted rate of return on investment. For public companies, the mandate of marketing is often more focused on achieving superior “relative performance”, in terms of average gas price and cash flow per share. In both ownership scenarios, marketing becomes an optimization problem.

For example, in a 1995 industry survey conducted by Phoenix, the range of average gas prices achieved by 120 local producers, representing 10.5 Bcf/day of gas production, was \$0.96/mcf and \$1.92/mcf. The volume-weighted average was \$1.40/mcf, which also equals the average Alberta Reference Price for Crown royalty payments in 1995. For a typical junior gas producer with 10 mmcf/day, the difference between \$1.92/mcf and \$0.96/mcf in average gas price equates to \$3.5 million in annual cash flow impact!

You can be sure that this range of marketing performance did not go unnoticed by senior management, boards of directors, shareholders and investment analysts. Consequently, as a junior gas producer starts out, the critical marketing problem to address is how best to ensure that its relative performance is at least in step with its peer group’s average performance. This type of analysis and decision making requires expertise in benchmarking, portfolio design and price risk management that a qualified Marketing Advisor can provide cost-effectively.

Unfortunately, too often marketing’s role in junior producers is restricted to a “sales orientation” which focuses on the operational and distributional functions of getting the production to the marketplace and wholesaling (“dumping”) it at the best available price. Very few junior producers truly “market” their production



through “direct sales”, in the sense that a “customer needs” orientation should exist. This requires a “bundling” of the commodity with a selection of desired and value-adding services for the end user of the gas. To take this approach requires a much larger investment in the producer’s marketing infrastructure. The rate of return on such an investment is a hotly debated topic!

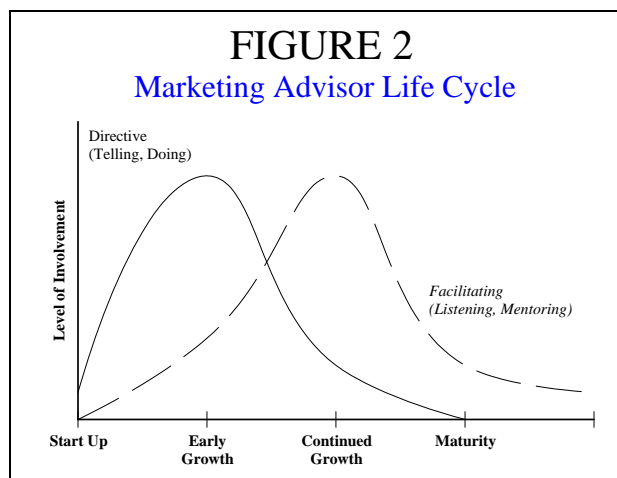
Instead, many junior producers are inclined to focus on “what they know best” (e.g., exploration, acquisitions, production), with the goal of cost minimization. Many overlook the fact that marketing can also play a role in a cost minimization strategy, through the collection and internal distribution of important market information. For example, the current debate over NOVA’s postage stamp tolls may soon result in a new rate design, reducing the cost of transportation for those producers in southern Alberta. This kind of insight is important to a producer deciding where to acquire or drill for new gas reserves in order to minimize its overall costs.

Finally, the importance and role of marketing at the corporate level of strategy will be addressed later in this paper.

III. The Life Cycle of a Marketing Advisor’s Role

At some point in the junior producer’s growth it may become cost-effective to internalize at least some of the marketing functions provided by a Marketing Advisor. This point in time will vary between producers, depending upon the complexity of individual marketing strategies and diversity of production sources, but often occurs one to three years after start up. The following summarizes the life cycle of the involvement of a Marketing Advisor and how its role and consulting style may change during the business relationship⁽⁴⁾. FIGURE 2 illustrates the life cycle in terms of the levels of directive and facilitating activities required from the Marketing Advisor.





a) Start Up (0 BOE production)

Many junior producers seek out the advice of a Marketing Advisor during the start up phase of the company. If a property acquisition is being contemplated, the Marketing Advisor can provide valuable market information to assist in the valuation of the property, as well as detailed due diligence of the existing marketing arrangements already in place. In the case of new exploration and development activities, the Marketing Advisor can provide valuable marketplace insight, such as the NOVA rates example cited previously. At this stage, the Marketing Advisor's services used are very specific and paid for on a "project" basis. The Marketing Advisor's consulting style at this point should be highly "directive", or focused on the task at hand.

b) Early Growth (up to 5,000 BOE of production)

As the junior producer experiences success and early growth through finding, developing and/or acquiring reserves, its needs for marketing services will increase. The Marketing Advisor's role may expand to include marketing strategy development, portfolio design, market identification and evaluation, contract negotiation and drafting, credit risk assessment, transportation arrangements, operations/administration and management reporting. Assistance

may also be provided to the production and revenue accounting personnel, in terms of ensuring correct sales volume allocations, payment/price verification and financial booking of revenues back to individual properties.

At this stage, the producer's needs for marketing services will require a Marketing Advisor who is a "jack of all trades", capable of tackling a combination of project-specific activities, such as portfolio design, and ongoing marketing transaction management. The Marketing Advisor's consulting style should shift slightly to include some facilitative behaviour (e.g., probing the client for its input to assist in problem solving), but is still highly directive overall.

c) Continued Growth (5,000 to 10,000 BOE)

During this phase in the producer's growth, there generally exists sufficient activity and resources to hire a full-time individual to start the transition away from the Marketing Advisor's services. Ideally, the Marketing Advisor should assist the producer in the employee search and selection process.

Depending upon the qualifications and the job description of the full-time marketing personnel, the Marketing Advisor's services will become less "hands on". The Marketing Advisor's consulting style should become "collaborative", requiring a balance between directive and facilitating behaviour, as the focus shifts to "mentoring" the new individual.

During this stage, many junior producers become interested in pursuing more sophisticated marketing strategies, incorporating price risk management programs, ownership of export pipeline capacity and participating (to some extent) in direct sales to end use customers. The Marketing Advisor will "help" with the analysis of making the transition to a more advanced approach.



d) Maturity

Once the full-time marketing personnel has settled in to the junior producer's organization, the Marketing Advisor's services are typically reduced to ad hoc consultations to confirm internally developed marketing strategies or to address unique marketing situations. The Marketing Advisor's consulting style becomes highly facilitative, in that generally the client is only looking for "an ear to bounce ideas off of." To some extent, the Marketing Advisor may be retained on a project basis to focus on unique marketing problems or market analysis for which the full-time personnel have little time to address themselves.

IV. Tips for Leveraging the Advisor's Resources

The following summarizes a number of tips junior producers should consider in order to maximize the value received from a Marketing Advisor.

a) Educational Component

One of the best ways to benefit from the use of a Marketing Advisor is through the educational component that is available through the relationship. A good Marketing Advisor should be prepared to be a "teacher", a "helper" and a "doer". Junior producers should always, where possible, assign one senior individual the responsibility to learn the higher level skills and one junior employee to acquire the operational and administrative skills, with a view to the future need for full-time internal marketing expertise. Some producers have taken this idea one step further by having Phoenix conduct "brown bag" marketing seminars for all of their staff.

The other benefit of the educational component is improved communication between the Marketing Advisor and the junior producer. Better communication



provides significant improvement in the quality and efficiency of the Marketing Advisor's services.

b) Internal Systems & Documentation

Producers should also ensure that the Marketing Advisor formally documents "how" it arrived at its recommendations. In addition, written documentation of various marketing processes/systems (e.g., price verification) set up by the Marketing Advisor should be developed and distributed internally, so that the "transactional know-how" does not leave with the Marketing Advisor.

c) Credibility Transfer

Often a Marketing Advisor brings a high level of marketplace credibility which the producer can benefit from. In many situations, I have found that the lack of credibility a producer has in dealing directly with a marketing company or end user for the first time will reduce its chances of capturing an attractive market. Thus, it is often beneficial to leverage the Marketing Advisor's credibility where appropriate.

d) "Headhunting"

Many junior producers overlook the logic of retaining a Marketing Advisor to assist in the search and selection of a full-time internal marketing person. Who better to know what the producer needs and who might be a suitable candidate? Instead, they automatically turn to the traditional personnel recruitment firms. The Marketing Advisor is a valuable source of potential candidates, as well as a more thorough "filter" for candidate screening purposes.



e) Shared Costs, Markets, etc.

Frequently, a Marketing Advisor will be involved with a number of junior producers with similar needs. In these situations, it is possible for the Marketing Advisor to use a multi-client approach to reduce the cost to each producer. For example, Phoenix has done multi-client reviews of complicated amendments to aggregator netback pool contracts.

In addition, a producer will often identify a market opportunity it would like to participate in, which is larger than the volume of production it wishes to sell. Again, a Marketing Advisor can assist by identifying other clients which may be interested in sharing the market.

f) Equity Analyst Appraisals

For publicly-owned junior producers it is often worthwhile to have the Marketing Advisor assist equity analysts in their appraisal of the company's share value through the preparation of fundamental analysis and portfolio design information. Hopefully, with a greater level of understanding of how the company's future average gas price will compare to the remainder of the industry, the more favourable the analyst's view of the junior producer's share value will be.

V. Tailoring the Marketing Strategy to the Corporate Strategy

A story I like to tell to illustrate how a junior gas producer tied in or tailored its marketing strategy with its corporate strategy goes as follows:

“In late 1992, the price of gas in Alberta spiked up dramatically virtually overnight to in excess of \$3.00/GJ, due to an unanticipated shift in the supply/demand fundamentals. At this time, many large producers had “overmarketed” their available production to lower priced markets and were



highly motivated to find or acquire new uncontracted supplies. The client I was then working for identified the opportunity to enhance shareholder value by positioning the company as an attractive takeover candidate for one of these large producers. The rationale was that if the client was viewed as a quick fix to the large producer's supply problem, a premium price for the entire company could be realized. As part of pursuing this new corporate strategy, it became vital that the client not enter into any new long term gas sales contracts for its growing gas production base. As a result, only spot gas sales and short term markets were considered; long term "premium-priced" market opportunities were rejected outright."

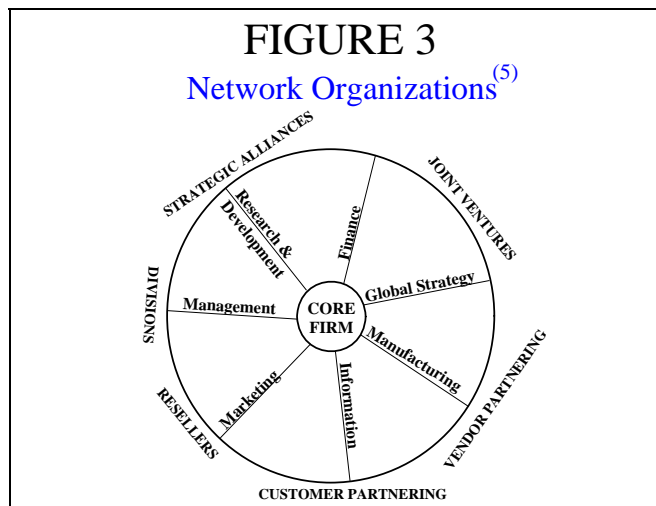
This marketing strategy, if viewed in isolation, "flew in the face" of conventional marketing wisdom. Yet it was exactly what was required to complement a bold and unique corporate strategy!!

In Frederick Webster, Jr.'s paper entitled "The Changing Role of Marketing in the Corporation"⁽⁵⁾ it was suggested that a new paradigm for the marketing function within the firm was required. Instead of the traditional marketing management function, which is based on the microeconomic maximization paradigm, marketing's function becomes the management of strategic partnerships and relationships, which repositions the firm in the value chain between suppliers and customers. This evolution appears to be currently occurring in the natural gas industry, with the thrust towards strategic alliances between large producers and large marketing companies.

As producing companies move toward focusing solely on their "core competencies" (e.g., exploration, development, production) in order to maximize the return on invested capital, we should continue to see the outsourcing of numerous other functions to "specialist service providers" who are more efficient. Eventually, what evolves is a "network organization", as illustrated in FIGURE 3, which is "a loose and flexible coalition guided from a hub where the key



functions include development and management of the alliances themselves, coordination of financial resources and technology, definition and management of core competence and strategy, developing relationships with customers, and managing information resources that bind the network.”⁽⁵⁾



The new role of marketing for gas producers may very well be focused upon the management of the relationship with the partner in the strategic marketing alliance and the dissemination of market information internally to assist in strategic planning at the corporate level.

What does this mean for the junior gas producer?

It likely means that the junior gas producer will have to reconsider internalizing the “transactional” aspects of marketing (among other functions) and pursue a suitable strategic alliance(s) earlier in its corporate life. The mandate of the Marketing Advisor also changes, becoming less “hands on” and more strategic in nature. The Marketing Advisor will assist in the design of the strategic marketing alliance relationship, after careful evaluation of the alternatives, and perhaps act as the liaison between the junior gas producer and the marketing alliance partner for a period of time. The challenge will be to find a suitable partner(s) who can compete with the other (bigger) marketing specialists effectively, yet is small



enough to give the junior producer the level of service and market diversification it requires. Bigger is not necessarily going to mean better for a junior gas producer!

Secondly, it will mean rethinking information/communication management and the use of information technology. Instead of having “everyone in the same office”, as is commonplace currently, junior producers will need to invest in information technology to transmit and receive the required information to/from strategic partners.

Thirdly, marketing will look for new non-traditional business opportunities and strategic relationships, such as the use of off-peak power and gas/electricity price swaps to reduce the producer’s fixed upstream costs and/or tie power costs to fluctuations in the producer’s gas sales price.

VI. Conclusions

The role of a Marketing Advisor within a junior gas producer is as an independent and objective facilitator, providing:

1. an economical source of market information,
2. analysis and recommendations on overall marketing strategy and market portfolio management, and
3. assistance in the completion and administration of marketing transactions.

The Marketing Advisor’s involvement with a junior producer can begin at the company’s start up and continue until it becomes cost-effective to replace some or all of the Marketing Advisor’s services with an internal full-time marketing professional.



Producers can maximize their investment in the services of a Marketing Advisor by capitalizing on the educational component, ensuring that formal marketing process documentation is provided, leveraging the Advisor's credibility in the marketplace, using their expertise for "headhunting", gaining the economies of scale realized through shared costs and market opportunities, and "educating" equity analysts.

Marketing strategy should be tied to the junior gas producer's corporate strategy. In the future, junior gas producers may need to consider the benefits of outsourcing all of their non-core functions through a number of strategic alliances. Marketing's future role within a junior gas producer would then focus on the management of the relationship with the marketing alliance partner, looking for new business opportunities and relationships, and the dissemination of market information within the organization for strategic planning purposes.

It is critical for the new junior producer to address the role of marketing in its business planning. Shareholders and banks will reward those producers who take a "professional" and efficient approach to all facets of our industry. Qualified Marketing Advisors make it possible for the junior producer to compete successfully for these "rewards".



END NOTES

- (1) Greiner, Larry E. and Metzger, Robert O., “Consulting to Management”, Prentice-Hall, Inc., Englewoods Cliffs, New Jersey, 1983, p.7.
- (2) Rumball, Donald, “Peter Munk: The Making of a Modern Tycoon”, Stoddart Publishing Co. Limited, Toronto, 1996, p.338.
- (3) Lovelock, Christopher H. and Maister, David H., “Managing Facilitator Services”, Managing Services: Marketing, Operations and Human Resources, 2nd Edition, Prentice-Hall, Inc., Englewoods Cliffs, New Jersey, p.64-76.
- (4) Manitoba Institute of Management Inc., “Consulting Excellence”, 1983, p.25-26.
- (5) Webster, Frederick E., Jr., “The Changing Role of Marketing in the Corporation”, Journal of Marketing, Vol. 56 (Oct./92), p.1-17.

Notes

