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E&P specialization works – until it doesn’t

4 risks of specialized operating

Increasingly, companies are pitching themselves as pure plays on just one basin, but what happens to play-level specialists when their focus area is no longer competitive?

Specialization narrows horizons by setting a lifespan on a company, even when dealing with currently prolific plays; **every asset is finite and will eventually deplete**

Specialization risks sapping a company’s ability to explore new frontiers and maintain the wildcatter spirit that keeps oil and gas companies growing

Specialization makes it hard to add value for shareholders, as wealth typically comes from taking big chances and delivering new reserves, not from efficient manufacturing in established fields

Environmental volatility is perhaps the greatest risk of specialization with multiple variables at play, including:

- A sudden public turn against fracking could spell the end for a company with no options other than shale in their portfolio
- Sources of cheaper supply could undermine the economics of a single type of asset
- Breakthroughs in renewables technology, or more forceful government policy to cut carbon emissions, could quickly sap value from an oil and gas company’s portfolio if it isn’t able to adapt and compete

“If you’re a specialist, you are optimized. You are really good at one thing. But by definition, it makes you vulnerable.”

– Raoul LeBlanc, Vice President, Energy, IHS Markit

“There is no longer an interest for companies to be a ‘jack of all trades.’ They want to be the best at one asset, one skill set, one operational mode.”

– Reed Olmstead, Director, North America Upstream Research, IHS Markit

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The Promises and Perils of Specialization

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