

Marcellus Shale Entrepreneurship and Business Development

This column is presented weekly by the Public Education sub-committee of the Clinton County Natural Gas Task Force in an effort to provide accurate, up-to-date information on activities surrounding the Marcellus Shale formation and the natural gas exploration industry.

The Marcellus Shale play has been dubbed as the economic opportunity of a lifetime and has already transformed the economies of many rural communities. Income generated from bonus and lease payments, road repair, well pad and pipeline construction are discussed in terms of billions of dollars. Lacking the technical expertise locally, at this time, has resulted in an influx of out of state workers moving into the area temporarily. While viewed as a negative in some instances, this has afforded many new opportunities for local businesses, not limited to lodging, food and fuel establishments. Some of the workers moving into the area have rooted themselves in their local community as they intend to live and raise their families – and more importantly from an economic development standpoint - spend their hard earned money.

When looking at the economic development impact the natural gas industry has had on a local community, it can be viewed in three broad categories. First, many local residents have received sizeable bonus payments to lease their property. Additionally, royalty checks have been flowing into the state and continue to increase considerably as wells go on-line. Second, the non-resident workers are providing many opportunities and challenges to businesses. Finally, and perhaps the area that receives the most attention, is the well site and pipeline construction impact.

Although the leasing activity has slowed, royalty payments are increasing across the state and locally as well. Many recipients of this new found wealth are not accustomed to the tax consequences and implications associated with it. This has provided additional need for tax advisors, CPA's, wealth managers and estate planning. With many family farms receiving sizeable checks, farm life is changing as well. New equipment purchases, a shift in operations and the ability to have disposable income has local retail establishments growing in a down economy. This may mean a third generation dairy farm is now focused on crop production, but at the same time providing an opportunity for a new dairy farm to establish itself.

Local hotels and motels have all seen an unprecedented rise in occupancy rate over the past 2 years. Expansions and addition of new hotels, even during the current economic conditions, in the Williamsport area emphasizes this growth. Not only is commercial space becoming harder to find, but apartments are increasing in cost and decreasing in availability. All the white trucks seen at local hotels represent an opportunity for local business owners. If your business model is to market to the out of state workers, where else can you find such a captive audience? Local hotel operators are finding that they must change their business model as they are now serving both short term and long term guests. Microwaves, mini-fridges, wi-fi access and larger business centers are all necessities. New menu items at

local restaurants, new and expanded clothing lines at retailers and brand new businesses one would typically see in Texas, Oklahoma or Louisiana are becoming commonplace in central PA. The local businesses that are successful in reaching the natural gas industry workers have done their homework. They are catering to the needs and wants of these workers and making the necessary changes to their business. Instead of trying to force the product or service they offer to the workers, they are finding what the need is and providing that product or service. Adaptation is always a key to long term survival and this industry is the same. A deli that used to only make sandwiches to order now finds that they must have pre-packaged sandwiches to meet the fast paced industry. The Marcellus Shale play is one of many plays across the country. If you are a local business trying to market to the workers of this industry and so far have had little success, identify similar successful businesses in other parts of the country. Research what they have done well and try and implement it in your business. Contact the business – you will be surprised how many small business owners are willing to share their successes when asked.

According to the Marcellus Shale Coalition (MSC), each well requires a \$4 million investment and each mile of pipeline construction costs nearly \$1 million. Through August, DEP reports 903 wells drilled in PA equally \$3.6 billion invested in well site operations alone for 2010. Closer to home, Clinton County has reported 23 wells drilled during 2010 totaling nearly \$100 million in costs. While these numbers are huge, there are many local business owners still trying to get involved in this industry. At the same time, local business men and women have been quite successful integrating themselves within the industry.

One of the top questions we receive at the Small Business Development Center (SBDC), and popular at other agencies as well, is who to contact at the energy company. While this is definitely a question that needs to be answered, sometimes it is not the first question that should be asked. The natural gas industry is still getting itself established in PA and by low estimates will be here another 20-30 years. Jumping into this venture should be done with careful planning and research, and in fact the research may help you decide this is not a good fit for your business model. As many businesses engage the industry, there is still the previous customer base that needs to be served.

It is important knowing what is going on in any industry your business is involved in, and the natural gas industry is no different. There are several key issues that can impact the pace of advancement such as a severance tax, drilling moratoriums, water management and infrastructure development. As we are aware, there is currently a drilling moratorium in New York and the Delaware River Basin Commission has issued one in its watershed, including some of the northeast counties in PA. Once these are lifted, new opportunities will open and change the current drilling programs. Being aware of these issues will be important for future planning and expansion of local businesses. Subscribing to trade groups newsletters, press releases or simply using Google Alerts can help you keep abreast of the industry. There are some commercial newsletters that try and bring the information to one source such as the Powell Barnett Newsletter or Marcellus Minutes. Trade journals and magazines are another good resource for following what is happening in the industry.

Once you have researched the industry, compiling a list of potential customers can be the hard part. There are many ways to go about this. The DEP has a list of all operators who have applied for a Marcellus permit. Under the DEP website, look under Oil and Gas, then Marcellus Shale and under

Reports you will find active Marcellus Shale operators list. Reviewing company websites, press releases and the Permit and Rig activity report on DEP's site will help find out the counties which the companies are operating in. Additional resources include online directories from gas expos, county task forces and trade association member lists. These more local directories can be more beneficial as many times a business's point of contact is not going to be the larger energy company, but a subcontractor.

When looking to start out, participating in gas trade shows is a great way to provide your company with exposure to the industry. It is important, however, to understand that a trade show is most likely not going to generate business at the event. The events are put together to start the conversation with potential customers, vendors or partners. Working a trade show properly includes being aware that the vendor next to you, or the next aisle over may be the one you want to do business with. Many deals are struck or started during the set up or tear down of shows or during the networking opportunities afforded at the shows. Having a booth set up at the show is not enough; you must go out and network with all the participants of the show. Trade shows are just another means of marketing and as with any marketing, you must have a call to action and your booth should provide a passerby with general information and a reason to stop. Once they stop, the rest is on you and your staff to sell your product or service. Develop a good follow up system after the show, preferably face to face or telephone. Realize also that you may need to follow up several times – companies may be planning for projects 3-6 months down the road and it could take that long to secure a contract.

While the natural gas industry may be new to this part of Pennsylvania, it is by no means a new industry. They have an established way of doing things and have been quite successful at it. For the most part, they are not seeking out businesses but are being sought after by businesses. If you expect an ad in the yellow pages to generate a significant impact, you may very well be disappointed. Also, while there may not be a flurry of noticeable activity in your backyard, you may have to go to where the activity is occurring. According to Baker Hughes, as of last week there is only 1 active rig in Clinton County but there are 10 in Lycoming County, 8 in Tioga County, 21 in Bradford County and 14 in Susquehanna County. However, there is plenty of pad construction, pipeline infrastructure and prep work being performed across the county and state.

When dealing with the industry, successful business owners constantly list the following factors as important:

- Safety – this is priority one. Hiring safe workers, abiding by local, state and federal laws is extremely important. Participating in company led safety meetings and trainings also.
- Adaptable – whether dealing with the workers or working on the well/pipeline projects a company must adapt. Simple things like updating menu items at a restaurant, having prepared food at different times of the day (or night), being mobile, available 24/7 and a willingness to learn. Ask questions of vendors, suppliers and even your competition.
- Reliability – you promise to get a job done on a certain day, get it done! If for some reason you can't, be straightforward and let the company know. Do not over promise and under deliver. Planning comes in to play here – making sure you have all the resources necessary to get a job done.

- Fair Pricing – the assumption the industry has deep pockets and will pay almost anything is a fallacy. You may get away with it once or twice, but in the end you will lose out. Also, while the industry members are fierce competitors, they also work with each other and can help locate potential supplies as well as ones to stay away from.

Once the decision has been made to pursue the industry, several key factors need to be addressed internally. What is the financial strength of your company? Is there enough cash to allow for expansion of equipment, inventory, training and employees? Do you have a line of credit to cover increased expenses while waiting for payment? Do you have the qualified employees or are they available? These questions, and many more, should all be addressed and answered before jumping into any business.

The Lock Haven University SBDC has actively been involved in the Marcellus Shale play and will continue to educate, partner and provide entrepreneurs with the information and tools necessary to make proper business decisions. For more information, the SBDC can be reached at 484-2589 or www.lhup.edu/sbdc.

Matt Henderson is a business consultant with the Lock Haven University Small Business Development Center.

