INCREASE MARKET SHARE IN DECLINING MARKET FOR LIQUIDS TRANSPORTATION

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Can pipeline companies increase their market share on competitive routes for liquids transportation services? Quite possibly.

GROWING COMPETITION

Transportation and storage of hazardous liquids has not been a hyper-competitive industry historically. Competition has increased in the past 30 years as industry views towards transportation and storage services have evolved into a business unto itself rather than primarily a cost of doing business for the company's upstream exploration and production and/or downstream refining businesses. When pure midstream companies proliferated in the late 1990s and early 2000s, integrated oil supermajors followed suit by divesting midstream operations into master limited partnerships. One outcome of the new companies and corporate realignments was more midstream operators seeking additional customers beyond just their affiliates in the marketing, upstream and downstream business sectors. Despite this market dynamic, competition within midstream companies still lags most industries.

Moreover, the industry outlook is cloudy. As a direct result of demand destruction caused by the coronavirus pandemic, the US Energy Information Agency reports that crude oil production is falling in 2020 and forecasts further crude production reductions during 2021[1]. Even if volumes recover to pre-pandemic business levels as soon as 2021, public sentiment to lower carbon emissions and the prospect of greater regulation stemming from a potential change in the US political landscape combine to a less than rosy outlook for midstream operators.

These two factors – a historical lack of competition and a murky future for the industry – set the stage for increasing levels of competition. At best, midstream companies will compete for declining barrel-miles. At worst, companies will fight to survive. A company's ability to increase its market share on routes provided by other pipeline companies will grow in importance during the next decade.

Transportation markets are not uniform. Moving crude from the Bakken to the gulf coast is different than transporting refined products from the gulf coast to the east coast, and gathering systems are very different from trunk lines. Companies do not compete with one another on differing movements. However, many instances in which multiple midstream operators transport the same products along the same route. Savvy companies recognize these routes as opportunities to grow market share by luring shippers away from the other operators.

1. US EIA Short-Term Energy Outlook – October 2020

FOLLOW OTHER INDUSTRIES FOCUS ON CUSTOMER EXPERIENCE

What motivates shippers to choose one transportation service provider over another when there are multiple options? Superior price? Superior reliability? Acceptance of widely varying product specs? Along with each of these, superior customer experience could motivate shippers to choose one provider over another.

Most midstream companies provide an antiquated customer experience based on business models created for a different era. Today, the industry norm is to give shippers lengthy invoices and inventory statements only after the month ends, just as it was 20-plus years ago. Compare this customer experience to other industries. For example, retail power providers and mobile phone carriers provide customers with the ability to view their usage and expected charges near real-time, at any time of day or night.

Following the lead of other industries would not be new to pipeline companies. In the late 20th and early 21st century, pipeline operators embraced safety improvements by following examples of other industries, notably nuclear power plant operators. Just as in other industries or adjacent businesses such as natural gas transportation and storage, the first liquid pipeline operators to provide customers with exceptionally higher levels of customer service than the industry norm will reap the benefits of increasing their market share.

UP-TO-DATE INVENTORY POSITIONS

Most pipeline operators have portals that enable customer self-service. And many of the customer portals allow shippers to view transactions that are most important to them, such as tickets and BOLs. Importantly, these transactions are frequently available before the month or cycle is complete. Although these transactions impact inventories, they are not the ultimate inventory position themselves. And very few, if any, of the portals provide inventory positions before the month, or cycle, is complete.

Commodity traders covet real-time data. Trading houses spend millions collecting real-time data with an intent to increase margins and reduce costs. Providing shippers with an up-to-date view of their inventory position may motivate shippers, especially trading houses, to move more of their physical transportation to pipeline operators that quench their appetite for up-to-date positions.

CHALLENGES

There will be challenges in providing up-to-date inventory positions. For some assets, providing real-time inventory positions may be unduly burdensome. Challenges such as allocating gain/loss, aligning shipper volumes with upstream carriers and assuring the accuracy of transactions that impact inventory positions will need to be addressed. Pipeline operators seeking to provide up-to-date inventory positions will need to ask themselves:

1. How close to real-time must inventory positions be provided to convince shippers to move volumes from competing pipelines to their pipeline? Near real-time, hourly, daily?
2. What is a reasonably accurate inventory position? Would shippers view inventory adjustments emanating from true-ups with upstream carriers at the end of the month as an acceptable casualty of providing inventory positions throughout the month?
3. For each asset, will providing up-to-date positions be a competitive advantage?

The challenges and relevant questions will likely vary for each asset. For example, the challenges of providing near real-time inventory positions on crude pipelines will be different from providing the same on refined product pipelines. And the people, process and technologies currently employed by the pipeline operator will present unique challenges, but perhaps advantages as well.

Efforts to provide up-to-date inventory positions to shippers are likely to include many groups within the pipeline operator's organization. Business development, scheduling, back-office accounting and IT staff are likely to be key in such projects. Executive sponsorship will likely be needed to prioritize efforts to provide up-to-date inventories, amongst other efforts.

REWARDS

The reward for overcoming the challenges and providing up-to-date inventory positions to customers could significantly increase market share growth. Alternately, the consequence of another pipeline company beating your pipeline company to up-to-date inventory positions could be catastrophic to your company. So whether a defensive play to prevent market share erosion or an offensive play to grow market share, savvy pipeline operators should embrace the challenge of providing shippers with up-to-date inventory positions.

Interested in learning more? Reach out to **Tommy.Page@capco.com** to learn how Capco's experience leading IT enablement projects at midstream operators can help.

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