

## Governing Energy

### The New Normal?

Volume 4 Number 15—August 4, 2015

If there was ever an overused cliché, the “New Normal” is it! We are told that any number of societal changes result from this paradigm shift (also overused) and that we must prepare ourselves for this step-change in our lives, jobs and even culture. Often simply a cyclical event, a New Normal does not materialize and once the danger has past, humans revert to a status quo—the Current Normal!

In previous editions of this blog we have expressed the position that the crude oil commodity price point may have indeed entered into a *new normal* trading range.<sup>i</sup> Moreover, technology continues to be one of the differentiators between profitable firms and those that struggle when oil is below \$50.<sup>ii</sup>

While cost cutting is important and a traditional approach to cyclical downturns, this time some firms are tweaking and even revamping their fracing (technology based) solutions.<sup>iii</sup> One analyst even calls this, “a step-change in well performance.”

The oil industry has long been known as a cyclical sector and market observers often express comments such as, “Margins Depend On Oil Prices.”<sup>iv</sup> But what if this is no longer a truism?

Driven by technology and the good business practices of those nimble, rapid responsive organizations, margins may now depend more on the “Structural Dynamics” cost structure and less on the (short-term) price point.<sup>v</sup> The evidence is mounting that the industry may in fact have transformed to this new “structural” normal.<sup>vi</sup>

However, can shale oil replace (by volume) the production of the Middle East and Deepwater offshore? This pundit suggests that this is To Be Determined. While this may be an unknown, the industry appears to be reacting as if shale is a major disruptive event.

If this structural transformation is the case, how does the industry respond? History suggests that the basic response may be tepid in that management will believe in the ultimate rebound until such time as “the die is cast.”

Farfetched? The changes, albeit turnover in Fortune 500 companies is high; however, its focus is more on the changes in fortunes of individual firms than the economy in general. According to one source, “It reflects a kaleidoscopic process of sectoral change and *greater efficiencies at the level of individual firms*, as well as some less sanguine economic developments.”<sup>vii</sup>

This begs the question, are we seeing Schumpeter’s Creative Destruction at work in the fossil fuel industry today?<sup>viii</sup> If we are, history also suggests that incumbents will not see the Structural Dynamics underfoot.<sup>ix</sup>

So perhaps we are entering a New Normal and “It is Different this Time.”<sup>x</sup> Those that cling to historical market models may do so at their peril.

## How is Your Firm Structuring for a Possible “New (*permanent*) Normal?”

### About the Author

Dr. [Scott M. Shemwell](#) has over 30 years technical and executive management experience primarily in the energy sector. He is the author of five books and has written extensively about the field of operations management. Shemwell is the Managing Director of The Rapid Response Institute, a firm that focuses on providing its customers with solutions enabling operations excellence and regulatory compliance management. He has studied cultural interactions for more than 30 years--his dissertation; *Cross Cultural Negotiations Between Japanese and American Businessmen: A Systems Analysis (Exploratory Study)* is an early peer reviewed manuscript addressing the systemic structure of social relationships.

### End Notes

- 
- <sup>i</sup> Shemwell, Scott M. (2014, December 18). 2008—Redux. PennEnergy Governing Energy. Vol 3. No. 24.
- <sup>ii</sup> \_\_\_\_\_ (2015, January 22). Is it Different This Time?. PennEnergy Governing Energy. Vol 4. No. 2.
- <sup>iii</sup> <http://uk.reuters.com/article/2015/07/29/usa-oil-technology-idUKL1N1042J020150729>
- <sup>iv</sup> [http://www.valueline.com/Stocks/Industries/Industry\\_Analysis\\_Petroleum\\_\(Integrated\).aspx#.VbvTJtJ0yM8](http://www.valueline.com/Stocks/Industries/Industry_Analysis_Petroleum_(Integrated).aspx#.VbvTJtJ0yM8)
- <sup>v</sup> Shemwell, Scott M. (2015). Structural Dynamics: Foundation of Next Generation Management Science. Houston: RRI Publications. <http://www.amazon.com/Structural-Dynamics-Foundation-Generation-Management-ebook/dp/B00U0JKMT0>
- <sup>vi</sup> <http://www.reuters.com/article/2014/10/23/idUSL3N0SH5N220141023>
- <sup>vii</sup> <http://www.wired.com/2012/06/fortune-500-turnover-and-its-meaning/>
- <sup>viii</sup> Shemwell, Scott M. (2014, July 18). Institutional Imprint. PennEnergy Governing Energy. Vol 3. No. 14.
- <sup>ix</sup> \_\_\_\_\_ (2015).
- <sup>x</sup> \_\_\_\_\_ (2015, January 22).