

2017

Business plan for establishment of enterprise for repair and maintenance of oil wells



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1. Summary

1.1. Essence and purpose of the project

This business plan presents a project on creation of an enterprise for repair and maintenance of oil wells. The company will provide additional service of metal structures dismantling.

The initiator expects to do the minimum amount of investment. That is why development of the company is planned to be evolutionarily, starting from minimum scale, funded at the initiator's own expense, and subsequently by means of return on the initiator's capital. In case of the company's success one may consider a question of third-party investment attraction to reach a new level of business.

After business registration the initiator plans to rent premises in Los Angeles, buy a computer together with office equipment, and start its own market research. The initiator is intended to create a site, organize its contextual advertising and its SEO-promotion. The other sales channel will be a personal sale that is call-down of target clients, personal presentations.

The project will start on *.*.*. Within * years the initiator is intended to:

-

The market overview (see *.*.) leads to a conclusion that this business line grows and develops. One can gain a foothold in the growing market, if compete on price, not to spoil one's reputation and effectively use one's own advertising budget.

As a result of the planned activities the company may reach the indicators presented in the next section.

1.2. Effectiveness of project implementation

Table 1. Indicators of efficiency and effectiveness in the planning period

Indicator	Value
Sales, thousand \$	* ***,*
Gross profit, thousand \$	****, *
Net profit, thousand \$	***, *
Payback period - PB, months	*
Profitability index - PI	*,**
Internal rate of return - IRR, %	***, **
Net present value – NPV, thousand \$	***

Analyzing performance indicators, it can be concluded that the proposed investment is very effective. This is evidenced by the following:

- payback for * months;
- significant positive value of NPV by the end of the calculation period;
- value of Profitability index is far more than *;

- value of Internal rate of return is much higher than the interest rate on long-term credits.

Taking into consideration tax laws of California and planned profit for * years, it is supposed to pay around ** thousand USD of taxes in total.

1.3. Source of funding

Source of the project financing is the initiator's own funds. The calculation showed that business will require an investment of ** thousand USD.

2. Project initiator

A private person.

3. Market overview and marketing concept

3.1. Determination of the main ideas and objectives of the project

This business plan presents a project on creation of an enterprise for repair and maintenance of oil wells. The company will provide additional service of metal structures dismantling.

The initiator expects to do the minimum amount of investment. That is why development of the company is planned to be evolutionarily, starting from minimum scale, funded at the initiator's own expense, and subsequently due to return on the initiator's capital. In case of the company's success one may consider a question of third-party investment attraction to reach a new level of business.

Project launch is planned for the beginning of the year ****. After business registration the initiator plans to rent premises in Los Angeles, buy a computer together with office equipment, and start its own market research. The initiator is intended to create a site, organize its contextual advertising and its SEO-promotion. The other sales channel will be a personal sale that is call-down of target clients, personal presentations.

It is planned to assemble a potential client base and receive the first order within first * months. At this point, the proponent plans to hire an engineer and an assistant engineer to fulfill the order, buy tools and consumables.

For the second year it is planned to provide * specialists of the operational personnel with the orders, buy a pickup truck, excavator-bulldozer. For the third year the work will already be performed by * specialists, sale of services will be managed by a separate specialist.

Required materials, construction elements will be purchased to order; spare part store is not planned. Legal support, accounting services and site advertising will be on outsourcing.

The market overview (see *.*.) leads to a conclusion that this business line grows and develops. One can gain a foothold in the growing market, if compete on price, not to spoil one's reputation and effectively use one's own advertising budget.

3.2. Market overview

Today, the United States is the 4th world's largest producer of oil with its 19.5 million oil barrels a day which are 19.5% of the world's daily oil production. According to the International Energy Agency (IEA) the United States is likely to become the world's largest oil producing country sometime between 2030 and 2040, overtaking Saudi Arabia and Russia. ¹

Since 2009, the United States has been in an oil-and-gas boom. In 2014, domestic production was at near-record levels, and the USA now produces more petroleum products than any other country in the world.

The U.S. Department of Energy signaled it is now more confident that U.S. oil production will rise to 20 million barrels a day next year, the highest average annual level on the books. The previous record average was 18.5 million barrels a day in 2014. ²

Increasingly, the U.S. is exporting crude oil and the critical products derived from it.

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Picture 1. US oil exports

Data source: EIA (U.S. Energy Information Organization) ³

As new discoveries are made and production facilities change, the places in the U.S. that account for the most production vary, but here are the top five areas based on a recent article on OilPrice.com.⁴

*. Texas (nearly 10 million barrels per day extracted from oil fields in places like the Eagle Ford and Permian basins, over a third of the total U.S. production comes from the Lone Star State.)

*. The Gulf of Mexico (The second-largest source of oil in the U.S isn't on land at all, it comes from federally-owned waters in the Gulf of Mexico. The 1.5 million barrels produced daily from Gulf wells accounts for over 15% of U.S. production.)

*. North Dakota

*. California (With 1.5 million barrels of daily production, the Golden State edges out Alaska for fourth place among producers.)

*. Alaska

New discoveries in states like Oklahoma (#6) and Louisiana (#7) will likely keep those traditional top producers high in the ranks, and fracking along with other evolving

¹ http://www.eia.gov/analysis/studies/oil/articles/usa_oil_production_2017_05_10

² http://www.eia.gov/analysis/studies/oil/articles/usa_oil_production_2017_06_06
http://www.eia.gov/analysis/studies/oil/articles/usa_oil_production_2017_05_21
http://www.eia.gov/analysis/studies/oil/articles/usa_oil_production_2017_05_21

³ http://www.eia.gov/analysis/studies/oil/articles/usa_oil_production_2017_05_21

⁴ http://www.eia.gov/analysis/studies/oil/articles/usa_oil_production_2017_05_21

technologies have brought New Mexico (#*), Colorado (#*), Utah (#**) and Wyoming into the game as major players.

Recently, companies have started using a combination of sophisticated hydraulic fracturing and new horizontal drilling techniques to unlock massive untapped oil and gas resources sitting in layers of shale rock. This is commonly known as fracking. Thousands of new wells were drilled in the last ** years. The population, for example, in Andrews County (Texas) has increased by more than ** percent since ****. Similar booms have occurred in other areas as well. ⁵

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Picture 2. Oil and gas wells in the United States

"Increased drilling activity in U.S. tight oil basins, especially those located in Texas, is the main contributor to oil production growth, as the total number of active rigs drilling for oil in the United States has more than doubled over the past ** months," EIA acting Administrator Howard Gruenspecht said in a statement. ⁶

The oil and gas industry is a major employer and leading economic driver also in California, responsible for ***,*** jobs in ****, or *.* percent of California’s employment, with almost \$** billion in total value-added, contributing *.* percent of California’s state GDP as shown in the report of the LAEDC (The Los Angeles County Economic Development Corporation) on study of the economic contribution of the oil and gas industry in California. ⁷

Despite the fact that Californian oil industry is constantly under severe control of the federal and state protection authorities, Californian oil companies increase drilling not always through applying for new leases, but also due to using recent technology allowing operators with existing leases to slant-drill from platforms already in place to create more wells. ⁸

The counts of new wells in fields are shown in shades of green. ⁹

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Picture 3. New Well Permitting Map of Unconventional Drilling in California

Published data show that the US crude-oil market is on the rise. Existing oil wells function, the new ones appear. That means they need to be repaired and maintained. The market of such services is also increasing. Therefore, a new company with its high quality services and effective promotion may win its share of this market.

3.3. Marketing

⁵ <http://www.eia.doe.gov/pub/reports/energyexploration/energyexploration/energyexploration.cfm?lang=eng>

⁶ <http://www.eia.doe.gov/pub/reports/energyexploration/energyexploration/energyexploration.cfm?lang=eng>

⁷ <http://www.eia.doe.gov/pub/reports/energyexploration/energyexploration/energyexploration.cfm?lang=eng>

⁸ <http://www.eia.doe.gov/pub/reports/energyexploration/energyexploration/energyexploration.cfm?lang=eng>

⁹ <http://www.eia.doe.gov/pub/reports/energyexploration/energyexploration/energyexploration.cfm?lang=eng>

3.3.1. Marketing concept

The owners of oil wells will be main consumers of the company's services. Although the proponent plans to operate throughout the United States, the main regions of activity will be States of California and Texas.

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3.3.2. Sales plan

The business initiator is going to achieve sales volume equal to ** thousand USD per month by the end of the first year - see Picture 4.

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In the next * years sales will grow at the expense of acquiring new customers and repeat sales. Recalculated sales plan is below - see Table 2.

Table 2. Sales plan

Year	****											
Month	*	*	*	*	*	*	*	*	*	**	**	**
Sales plan, thousand \$	*	*	*	**,*	**,*	**	**,*	**,*	**,*	**,*	**,*	**

Year	****											
Month	*	*	*	*	*	*	*	*	*	**	**	**
Sales plan, thousand \$	**	**,*	**,*	**,*	**,*	**	**,*	**,*	**,*	**,*	**	**

Year	****											
Month	*	*	*	*	*	*	*	*	*	**	**	**
Sales plan, thousand \$	**	**,*	**,*	**,*	**,*	**	**,*	**,*	**,*	**,*	**,*	**

Picture 4. Sales chart in the first year of operation

3.3.3. Marketing tactics

Positioning

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Competitive advantages

1.

Product development

1.

Marketing channels

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Pricing

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Advertising and promotion program

The main channels of promotion will be:

- Promotion in the Internet.
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- Calling potential clients on the address database.
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4. Material resources

4.1. Investment costs

You may observe the investment costs in Table 3.

Table 3. Investment costs, thousand USD

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4.2. Direct expenses within the operation period

Direct costs will include spare parts, construction details, transportation costs. While economic analysis the direct costs are predicted in the amount of **% from the sale.

4.3. Indirect expenses within the operation period

The indirect expenses are enumerated in Table 4.

Table 4. Indirect expenses, thousand USD

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Staff costs for the planning period will constitute:

Table 5. Staff costs, thousand USD

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5. Enterprise

The form of ownership is LLC (Limited Liability Company), the tax rate for California is *.**% from profit¹⁰.

5.1. Organizational structure

The proposed organizational structure of the company in the third year of existence is presented at the Picture 5 **Ошибка! Источник ссылки не найден.**

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¹⁰ - [****.//*****_****_**/*****_**_**/*****_*****_**_**/*****_**_*****_**_****/](#)

5.2. Staff schedule

Table 6. Staff schedule

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The average salary of employees - * thousand USD per month.

5.3. Project calendar

The arrangements proposed in the business plan can be implemented on the following dates:

Table 7. Schedule of activities

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6. Financial analysis

6.1. Assumptions

For the financial plan calculation a financial and economic model was built using a special program for business process modeling called Project Expert. While doing that the following assumptions were used:

- The discount rate is *%.
- The depreciation period of equipment is * years.

Picture 5. Organizational structure

6.2. Cash flow budget

Table 8. Cash flow budget, thousand USD.

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The above Cash flow budget shows that on condition of investments of ** thousand USD at the start of the project, the planned company won't experience difficulties with money within the whole planning period. By the end of the planning period the sum of free money exceeds *** thousand USD.

6.3. Projected balance

Table 9. Forecast balance, thousand USD.

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The retained earnings of the planned business grow since the *rd quarter of ****, and make more than *** thousand USD to the end of the planning period.

6.4. Budget revenue and expenditure

Table 10. Budget revenue and expenditure, thousand roubles

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Apparently from the table, the company begins to show steady operating profit from the *rd quarter of ****.

*. Project effectiveness

.. Financial indicators

Table 11. Financial indicators

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Liquidity indicators characterize ability of the company to accept claims of holders of short-term debt obligations. The recommended values of current liquidity ratio are ***%-****%. Apparently from the table, the solvency of the company doesn't raise doubts on the entire period of planning.

The Total Assets Turnover is rather high, that means that assets "work", they aren't frozen.

The planned business shows good profitability on net profit and high profitability of investments starting from the *rd quarter of ****.

.. Performance indicators

Table 12. Indicators of efficiency and effectiveness in the planning period

Indicator	Value

Sales, thousand \$	* ***, *
Gross profit, thousand \$	****, *
Net profit, thousand \$	***, *
Payback period- PB, months	*
Profitability index- PI	, **
Internal rate of return - IRR, %	***, **
Net Present Value – NPV, thousand \$	***

Analyzing efficiency indicators, it is possible to draw a conclusion that the offered investment of capital is very effective. It is demonstrated by the following:

- payback for * months;
- a significant positive value of NPV by the end of the calculation period;
- value of Profitability index is far more than *;
- value of Internal rate of return is much higher than the interest rate on long-term credits.

***.*. Break-even analysis**

Sales volumes below which the activity of the company stops being profitable are much less than the planned ones:

Table 13. Break-even point, thousand USD

*Q ****	*Q ****	*Q ****	*Q ****	*Q ****	*Q ****	*Q ****	*Q ****	*Q ****	*Q ****	*Q ****
** ***, ,	** ***, ,	** ***, ,	** ***, ,	** ***, ,	** ***, ,	** ***, ,	** ***, ,	** ***, ,	** ***, ,	** ***, ,

The stock of financial durability is big in absolute values:

Table 14. Absolute stock of financial durability, thousand USD

*Q ****	*Q ****	*Q ****	*Q ****	*Q ****	*Q ****	*Q ****	*Q ****	*Q ****	*Q ****
** ***, ,	** ***, ,	** ***, ,	** ***, ,	** ***, ,	** ***, ,	** ***, ,	** ***, ,	** ***, ,	** ***, ,

The stock of financial durability is big also in relative values:

Table 15. Relative stock of financial durability, %

*Q ****	*Q ****	*Q ****	*Q ****	*Q ****	*Q ****	*Q ****	*Q ****	*Q ****	*Q ****
** ***, ,	** ***, ,	** ***, ,	** ***, ,	** ***, ,	** ***, ,	** ***, ,	** ***, ,	** ***, ,	** ***, ,

