Explaining the [In]Actions of the Fossil Fuel CEOs.

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It is a fact that the fossil fuel industry is living on borrowed time. Yet those who decide the course of the big oil companies seem to hang on by their fingernails at times, past the point of economic viability. The article below, from the Institute for Energy Economics and Financial Analysis gives some insight as to what we are seeing and what we may expect in the future regarding our inevitable move into sustainable energy.

Comments by OSFR historian Jim Tatum.
-A river is like a life: once taken, it cannot be brought back-

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Kathy Hipple May 30, 2018Read More →

IEEFA Update: How Gas and Oil Companies Are Starting to Look Like the Yellow Pages (Remember Those?)

Nine Lessons: What Fossil-Fuel Executives Can Learn From an Industry's Failure to Adapt

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Will the oil and gas industry go the way of the Yellow Pages?

Not immediately.

But huge industries can decline faster than anyone might imagine, as seen in the classic and cautionary fall of the Yellow Pages.

I know because I was there. As a board member some years ago of the national Yellow Pages Association, I had a front-row seat to the almost overnight implosion of an industry whose leaders and investors ignored glaring signs of impending doom.

The parallels between what happened to that line of business and what's happening to the fossil fuel industry today are striking. Granted, there are huge differences. While the Yellow Pages business no longer exists as we knew it, oil and gas will remain important—if no longer dominant—sources of energy for decades to come.

Yet a head-in-the-sand mindset persists across the declining fossil-fuel industry similar to the one I saw take root in the Yellow Pages business, which only 20 years ago was a robust $17 billion enterprise. Small businesses across the U.S. literally depended on ads they placed in their local directories, and investors loved recurring revenues and high margins that often exceeded 60%.

Then, in what seemed like a nanosecond in historical terms, Yellow Pages companies went from Wall Street darlings to dinosaurs, vying with horse-and-buggy whip makers for the dubious distinction of best symbol for luddite businesses.

Where Yellow Pages executives went so wrong was in their insistence on ignoring opportunities to Innovate, often doubling down instead on their legacy print operations. The industry missed recognizing the existential threat it faced from the Internet's explosive growth, and industry-financed researchers only reinforced what industry executives probably wanted to hear—that consumers would continue to rely on Yellow Pages print products rather than take to the Internet.

Given their massive cash flows, telephone-company Yellow Pages companies could well have bought a brand-name search engine, and indeed publishers considered acquiring Yahoo, then a formidable competitor to Google.

But they did not.

OIL AND GAS COMPANIES ARE IN A NOT-ENTIRELY DISSIMILAR SITUATION as they cling to imperiled business models. My guess is they'll go the way of the shrinking coal industry and—eventually—the nearly extinct yellow pages industry.

Here are nine reasons why:

1. With few exceptions, fossil fuel companies have ignored, or at best downplayed, a changing world. For the most part, these companies see growth momentum in renewable energy and electric vehicles as but a distant concern, much like Yellow Pages executives were convinced that the competitive threat posed by the rise of the Internet was exaggerated. Industry-sponsored research continued to support the view that print directories offered the best return on investments for many advertisers, even as annual revenues continued to decline by 20-25%/year.
2. Most senior managers in the fossil fuel industry are lifers, as were most Yellow Pages executives. They are generally white men in their 40s, 50s, and 60s. The best and brightest in their industry, they have risen through the ranks to build what were once the biggest companies in the world (before the ascendance of Amazon, Apple, Google, et al.) But they are insular, they lack much knowledge of other industries, and they tend to view those with contrary views as uninformed outsiders.
3. As pressures to their business mount, oil and gas executives have been slow to act, and many have simply hardened their positions and circled their wagons. Case in point: Vigorous oil company opposition to shareholder resolutions asking management to explain how their companies will be affected by the ongoing transition to a low-carbon energy economy. Similar questions asked of Yellow Pages publishers were similarly disregarded.
4. Mounting pressures intensify the hidden pecking order within a declining industry, focusing it inward. Each company believes itself to be better positioned by virtue of its “rightful” status; this mindset allows executives to imagine they are less vulnerable to outside threats than they really are. Cases in point: ExxonMobil’s pattern of continuing to tout itself as a company impervious to

change and the Baby Bell descendants of ATT insisting they could weather the onslaught of the Internet just because they had been around for so long.

5. The industry is fighting among itself now at the expense of modernizing. This phenomenon was apparent also in the Yellow Pages industry, once characterized by multiple citywide directories virtually indistinguishable from each other whose owners turned to vicious competition models that created huge acrimony. Rather than coordinate efforts to modernize, many Yellow Pages publishers built their own online search engines through initiatives that were ineffective, at best, and fatally constrained by geography.
6. Legacy companies often fail to view their businesses in a larger context, causing them to ignore opportunities for which they're uniquely qualified. Oil and gas companies could become more diversified energy companies, and some are coming around, albeit it late in the game. Total SA, for one, recently purchased a $1.7 billion majority stake in the French electricity company Direct Energie in a deal representative of "a strategy shift among European oil majors as the global transition to cleaner energy gathers pace." Yellow Pages publishers, as many oil and gas companies are doing today, acknowledged their failure too late to effectively rebrand.
7. Legacy companies, typically tied to backward-looking business models, rarely pivot toward higher-growth, lower-margin businesses. The fossil fuel industry, like the Yellow Pages business did, continues to bet that what worked before will work again. Annual investments in upstream oil and gas projects still dominate the capital-expenditure budgets of major oil companies, much like Yellow Page businesses reacted to change by doubling down on once-profitable print directories.

8. Innovative, growth-oriented revenue strategies are given short shrift in the fossil fuel sector, and ingrained corporate cultures keep managers from developing real foresight. Management focuses understandably on the business segments that make up the overwhelming majority of its current revenue streams. This habit breeds complacency, however, and while many oil and gas companies have fledgling renewable energy initiatives, most devote only a trivial percentage of their capital spending to these businesses of the future.
9. Ingrained corporate cultures also reward managers simply for staying the course, and few CEOs are willing to abandon business models that have worked in the past. Yellow Pages companies were often viewed as non-strategic assets within legacy telephone companies' larger product portfolio. They were seen as cash cows, helping fund investments in Internet access and mobile technology—both of which were viewed as more strategically important to the parent company. Directory publishers were either unable or unwilling to make the case that digital search engines were the future. Parent companies, as a result, missed out on that opportunity.

THE FOSSIL FUEL SECTOR WILL NOT COLLAPSE AS QUICKLY as the Yellow Pages did, in part because its political reach is so vast. Whole governments depend on its revenues for fiscal and political stability, which leaves the oil and gas industries in position to shape policy for quite some time to come—and for well beyond what is economically rational.

That said, oil and gas are struggling. The fossil fuel sector vied with the telecommunications sector as the worst-performing segment of the market in 2017.

The core takeaway from the decline of the Yellow Pages: early warning signals require real investment in innovation.

Failure on this point leads to disorder and loss.

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