Linc energy management case study management essay

Business, Management

When it would like to be known whether a company is worth investing in, a number of factors need to be considered. What the company does on a day-to-day basis is very important, and so is how they finance these things. The subject of this case study is Linc Energy, a large Australian company operating within the Energy industry, and a supplier of coal-based synthetic fuels and convention oil and gas production. The industry that Linc Energy operates is one that is very simple, but generates some of the largest levels of revenue in Australia, and therefore is generally saturated with companies. It is for this reason that a careful and analytic look into Linc Energy is required to determine if they have been successful, and to see if this success may continue into the future based on their current strategies. After taking into consideration Linc Energy's financial position, looking into their operations and current strategic approaches, and putting the company through a SWOT analysis, we determined that the company is well positioned going into the future. This is because they have a product line up that is somewhat unique in that they not only find and drill their own commodities, they also process it and sell it in the form of aviation fuels, among others. This fuel is a form of clean fuel, which is a big ticket item as we come under increasing pressure regarding Climate Change and the like. Table of Contents

1. 0Introduction

Linc Energy is an Australian company that works within the Energy industry. They specialise in coal-based synthetic fuels and also work on conventional oil and gas production. In addition to this, Linc Energy is currently working towards developing Underground Coal Gasification technology (UCG). UCG is

the process in which oxidants are injected into a coal seam, and the product gas is lifted to the surface. This gas is then able to be used as fuel or for power generation. Linc Energy began back in 1996 and was floated on the Australian Securities Exchange (ASX) in 2006. It first started its Chinchilla Facility in 1999, but didn’t achieve control of the process at the facility until a few years after this. The processes that Linc Energy incorporated into its productions were through the cooperation of Ergo Exergy and the consultancy of Skochinsky Institute of Mining in Russia. Since this time, further developments have been made by Linc Energy, one of which of note is the fact that Linc Energy has a stake of 91. 6% in SPC Yerostigaz which put them as the biggest entity involved in UCG. The latest news regarding Linc Energy is their recent discovery of tight oil (Shale) resources near Coober Pedy estimated to contain up to 223 billion barrels of oil. In order to determine whether Linc Energy is performing well, now and into the future, we need to analyse the company in far greater depth. This involves looking at all Linc Energy’s operations throughout Australia and the world, and determining whether their current strategy will provide the company with success, if not, what alternatives there may be. This is achieved through looking at the competitive basis of Linc Energy versus other companies by taking into account financial positions, product line-ups and other market factors. All this will be covered over the following sections, and will aid in determining whether Linc Energy is a worthy company to invest in.

2. 0Fragmented/Mature/Niche

Linc Energy is a relative integrated company that operates in multiple energy sectors. Most of their work revolves around oil and gas however with the development of UCG they are moving into this sector as it enables them to develop a more sophisticated level of product. In the scheme of things however, Linc Energy is a relatively new company, being established in 1996 but not being productive until 2000. This means they are roughly fifteen years old in comparison to companies that have had experiences dating back to the 1970s or earlier. Linc Energy operates a very unique niche, UCG. They operate the only UCG facility in the world to date which provides them essentially with a monopolisation of that sector within the worldwide Energy market. However, being an Australian based company, this is mostly compounded due to the surprising small energy markets operating in this region, in comparison to other regions such as North America and Germany.

3. 0Industry Analysis

Linc Energy operates within a fairly diverse industry, in that a number of products and operations are used specifically or widely. For instance, Linc Energy is one of only a few UCG companies throughout the world which puts it in a good position on a competitive basis. However, they also offer other products which are also offered by other competitors, which build a level of rivalry. In addition, they are continually going up against new competitors who come onto the market with a similar product or service. In order to succeed in the face of competition, Linc Energy has a business model which

is designed to add value across the board, and position it well. This builds success and industry attractiveness.

3. 1Characteristics OF Linc Energy

MARKET SIZE

Linc Energy is a boutique sized provider of Oil and Gas & Enhanced Oil Recovery, Coal, and Clean Energy/Fuels. They are active all over the world and are always acquiring assets.

SCOPE OF COMPETITIVE RIVALRY

Australia has many other companies that provide similar services. Linc Energy is diversified by being involved in multiple commodities. With their recent discovery of Shale Oil, they are well positioned into the future.

MARKET GROWTH RATE

With the need for Oil always growing and the increasing use of gas, Linc Energy is growing fairly steadily. In addition, the need for cleaner energy and fuels in the world is a massive need, and Linc Energy is well placed in this arena. These are some of the reasons behind the share price for Linc Energy doubling since Dec 2012.

STAGE IN LIFE CYCLE

Oil & Gas is a commodity that will only face demand; therefore Linc Energy will continue to meet quality growth.

NUMBER OF COMPETITIVE COMPANIES IN INDUSTRY

There is a significant amount of Oil & Gas, Coal and Fuel companies within Australia. Companies such as Woodside, Santos, Chevron, BP, plus more, all operate within this industry. These firms are conglomerates.

CUSTOMERS/BUYERS

The range of customers is quite broad due to the products Linc Energy offers. Therefore customers can be other businesses, or everyday consumers.

DEGREE OF VERTICAL INTEGRATION

Linc is very vertical. For example, they will discover the oil, then develop and process it. They will then use it to develop a range of fuels.

EASE OF ENTRY/EXIT

In order to enter these industries is quite difficult; however the number of companies starting up is still growing due to the demand for the resources. However, most of the resources are controlled by the larger corporations which make it difficult for new smaller companies to get a good hold. Because of the large financial outlay required to develop new drilling operations and the like, if Linc Energy were to exit the market, they will stand to lose a lot of assets.

TECHNOLOGY INNOVATION

Linc Energy is producing cleaner fuels through their Underground Coal Gasification technology which is going toward powering aircraft.

PRODUCT CHARACTERISTICS

Their main products are energy in the form of fuels, oil and coal.

SCALE ECONOMIES

As Linc Energy invests in additional plant operations they are able to produce a greater amount of oil to meet the demands of the market.

LEARNING AND EXPERIENCE EFFECTS

INDUSTRY PROFITABILITY

Despite being a competitive market, there is a massive demand for Oil & Gas and cleaner fuels. The natural effect of this is a greater price for better products, and therefore greater margins.

3. 2Competition Analysis

3. 2. 1Rivalry Between Competing Sellers

There is no shortage of competition in the energy industry with dozens of companies attempting to efficiently extract, transport and sell their products. Closer rivalries exist between Linc Energy and fellow Australian companies and their ability to extract resources. Linc Energy is one of only a handful of companies that utilises the technique of Underground Coal Gasification (UCG) to convert coal to gas. Carbon Energy and Cougar Energy are the two main rivals to Linc energy within this particular stream of gas mining. In 2009 the Queensland government established a policy for underground coal gasification allowing for three separate pilot projects to determine the value of the technology and its impact on the environment. Linc Energy constructed its plant near Chinchilla, Cougar Energy near Kingaroy and

Carbon Energy at Bloodwood Creek. Of these three projects only Linc Energy’s pilot plant was allowed to continue to completion based on the reporting of the Independent Scientific Panel (ISP) and is currently operating the only UCG demonstration facility in the world at its Chinchilla site. Cougar Energy was ordered to cease their operations in January 2011 for a failing to disclose sufficient information about their impact on the environment. Additionally the ISP stated that Cougar Energy possessed a lack of in-house technical ability to run the facility, relying too heavily on outside consultancy. Carbon Energy received an environmental protection order in July 2010 forcing their operation at Bloodwood Creek to shut down temporarily. However Carbon Energy took action and improved its processes and infrastructure resulting in environmental authorities allowing the company to restart its operation. Carbon Energy is currently seeking approvals to expand the Bloodwood Creek site to a commercial plant. Based on the UCG trials and future outlook of both companies it is Carbon Energy are the greater threat to Linc Energy in the field of Underground Coal Gasification. However for the time being and for the foreseeable future Linc Energy has the greater foothold in the UCG market in Australia and worldwide. Linc Energy holds the controlling stake in the world’s only UCG facility – Yerostigaz located in Angren, Uzbekistan. The acquisition of this controlling stake allows exclusive access to the UCG technology in use at the facility – a major advantage Linc Energy possesses over rivals. Furthermore Linc Energy is the only company to utilise UCG technology along with Gas to Liquids (GTL) technology in order to produce and sell more refined products including ready to use clean synthetic fuels including diesel.

3. 2. 2Potential Entry of New Competitors

The oil and gas market is an extremely attractive prospect to both existing companies in other sectors looking to diversify along with new companies that form. It is very difficult however for those attempting to launch an enterprise in this industry due to the extremely large amounts of start-up capital required. New competitors therefore are more likely to come from large established companies looking to diversify, particularly those already in the mining sector in areas other than oil and gas. Fortescue have recently made their first investment in the oil and gas sector – purchasing an 18% share of the company Oil Basins. Not only does this investment aid in the competitiveness of Oil Basin but also allows Fortescue with priority access to their energy requirements. Due to the difficulty in establishing new companies in the oil and gas sector along with the high risk nature of the industry and the considerable amount of existing competition suggests there is a low likelihood of the formation of new competitors.

3. 2. 3Competitive Pressures from Substitutes

SUBSTITUTES AFFECTING DEMANDLinc Energy’s products are can actually be used as substitutes for each other as they are simply different forms of energy. This means that while oil, gas and coal can potentially be used as substitutes the fact that Linc Energy produces all of these any potential substitutions are irrelevant. In the current market the competitive pressure from substitutes to Linc Energy’s products is minimal. The largest competition comes from the relatively new renewable energy sector which for the time being and for the foreseeable future is not cost effective enough

and cannot supply sufficient volumes to be a threat to the demand for oil and gas. While not posing a threat to replace oil and gas, renewable energy may in the future reduce the demand for it by increasing its efficiency resulting in customers requiring less material to achieve the same outcome. A key area of possible demand reduction will occur in private and commercial transport with the upward trend of Hybrid vehicle sales. Currently Hybrid vehicle sales account for less than 0. 5% of all sales therefore this technology will have little effect on Linc Energy’s sales. Over the coming decades however it is very likely that hybrid vehicles will have an increased market share which could result in a decrease in demand for oil and diesel. SUBSTITUTES AFFECTING SUPPLYThere exists great competition for the land rights to coal deposits between companies utilising the UCG technique to extract gas from coal and those that utilise the Coal Seam Gas processes namely Arrow Energy. Alternatively coal can be mined directly and used to produce electricity which may further reduce Linc Energy’s ability to produce gas but also creates another competitor for client energy demand.

3. 2. 4Competitive Pressures - Supplier

The heavy reliance on technology to perform the UCG process has the potential to present suppliers with the ability to push prices up. Due to the high costs of operation it is very important that downtime is minimised therefore any equipment problems need to be sorted straight away allowing suppliers and technicians to demand any penalty rates they see fit.

3. 2. 5Competitive Pressures - Buyer

Fortescue’s recent investment in Oil Basins represents an alliance between buyer and seller. Fortescue are heavily reliant on diesel in their current iron ore operations, and their investment suggests they will now purchase most if not all of their requirements from Oil Basins, diminishing any potential buyer-seller arrangement between Fortescue and Linc Energy. This doesn’t categorically rule Linc Energy out of contention as a supplier for Fortescue (they do not own a majority stake in Oil Basins), it does however mean that Linc Energy will have to be in a position to reduce process in order to supply to Fortescue.

3. 3Driving Forces

The term driving forces can be defined as " Key internal forces (such as knowledge and competence of management and workforce) and external forces (such as economy, competitors, technology) that shape the future of an organization" (WebFinance, Inc, 2013). This is true for Linc Energy, where it is evident that there are significant internal and external factors which are driving the company forward towards the future in their business ventures.

3. 3. 1Internal

The internal factors include: Key personnel: there are key personnel within the company which help to drive the company forward in support of their vision. These personnel, particularly the directors and notably CEO Peter Bond help to drive the company forward through reinforcing the company’s ideals and actively promoting the company to the media. They are key figures in the process maintaining the company’s vision and ensuring that

the company continues to develop and evolve. Business values: there are company values which help drive the company forward. An example of this is safety in the workplace, as stated by acting Chairman Ken Dark in the 2011 annual report " Safety of our workforce continues to be one of our driving forces" (Linc Energy Ltd, 2011). This statement not only indicates to the significance of operational safety in general but and its importance to the company in its evolution. This is further expanded by details of zero lost time injuries for the year, a feat which in the modern industrial landscape is quite an accomplishment. Innovation: the companies desire to be an innovative energy producer is a significant driving force. This is evident in the continual mention of new reliable, efficient, environmentally friendly fuel sources. The desire to be innovative allows Linc Energy to invest and expand operations as technologies change. Commercialisation: this is an extension of innovation, allowing new technologies to become commercialised will firstly allow the company to expand and increase its operational footprint and impact in the energy market. The ability to have new industry innovations become commercial standards or commercially available will result in new business ventures as demand for the technology develops over time allowing the business to grow or move forward. Globalisation: the desire to be a globally recognised company is a significant driving force; the investment in global operations and resources allows the company to expand its impact on the energy market beyond solely Australia. Evidence of this is the increase in global operations inclusive of resource investigations in new areas and the expansion of existing operations worldwide. This is apparent when making comparisons between the Global Acreage maps between the 2011 and 2012

reports showing an increase in operational area and investigations. The evidence is in the newly established ventures in Texas and Poland and the resource evaluations of South Africa and the UK with localised companies. Financial: the financial factors have the most significant impact upon the driving forces of a company and also significant in the external factors below. Internally the financial success of the company allows for research and development to be possible and new operational ventures to be considered. If Linc Energy was not in a profitable operating state there would be no avenue to allow the company to evolve.

3. 3. 2External

Key external factors include: Global trends: global trends such as environmentally friendly energy sources and efficient energy sources is a driving force which also leads to innovation being a driving force as mentioned previously. Financial: Financial reasons are an existent component in all mentioned external factors. The financial landscape surrounding the company can drive the company to restructure and evolve and evidence of this is from a statement from the CEO Peter Bond in the 2012 annual report. The statements below indicate that the economic market instability throughout the previous year had an impact upon Linc Energy to the Extent that the company had to asses itself in many aspects to avoid significant negative impacts, including loss of investors and reduction in profit margins which could lead to financial insecurity." It goes without saying that this past year has been an extraordinarily difficult period from a global economy perspective" (Linc Energy Ltd, 2012)" The best way to

ensure we recover its share value and sentiment is to execute on corporate goals so that we keep adding value to the business - fundamental value that delivers profits and dividends and eventually will also drive the share price" (Linc Energy Ltd, 2012). Environmental factors: these also play into global trends such as environmental responsibility leading to the innovation mentioned in the internal factors. With the changing environmental landscape it has become more important than ever to accept that environmental stability will become a significant part of any business, hence in the case of Linc Energy is the Clean Energy Division. Stakeholders: Is another significant external driving force, this regards to the overall success of the company. The company needs to prove to its investors that the direction is successful in both the short and long term periods. This can have an impact upon both internal and external factors where finances plays a significant role e. g. innovation and globalisation

3. 3. 3Culture Change & Trends in Society

3. 4Position Analysis of Companies in this Industry

3. 5Understanding the Competitors

Linc Energy has a diverse range of competitors including the large powerhouses in oil and gas Chevron, BP, Shell, Caltex, BHP and Woodside along with many (relatively) smaller companies. Realising that at the current point in time Linc Energy cannot compete with the larger companies in terms of sheer size and volume of operation. While this may change in the future for the time being it is necessary to act more innovatively. Realising that the larger companies will have a more complex internal structure Linc Energy

has identified an area of advantage it can apply – that is the ability to seize new projects quickly evidenced by the quick investment in the Yerostigaz project resulting in ownership of key UCG technologies. Additionally the investment in Yerostigaz also gives Linc Energy a distinct advantage over competitors of a similar size by restricting them from utilising these patented technologies. This advantage is extremely valuable as comparable companies also rely on innovation to compete.

3. 6Key Success Factors

ENSURING CONTINUED SUCCESS FORWARDWith the growing global demand for energy and subsequent increase in the oil price globally, the future of the oil market is believed to be positive on the overall. However with the growing concern of anthropomorphic global warming governments the world over are taking legislative measures to discourage the use of fossil fuels. The measures vary from country to country nonetheless they are broadly similar in nature. Some governments have imposed emission trading schemes on carbon based energy sources while others have differentially created favourable conditions for the growth and uptake of renewable energy sources. Linc Energy has devised strategic mechanisms to sustain success in the years ahead. Readiness to sustain continued success or even maintain relevance in the in the ever changing energy supply industry necessitates carefully addressing supply and demand challenges. It is a well-accepted fact within the industry that winning oil and gas suppliers in the years ahead will not just be the biggest resource holders and perhaps not the ones with the strongest balance sheets. Those who remain at the leading edge of the

industry will be the ones that are well positioned in deploying strategic technologies that enhance both production quantity and quality products. To that effect Linc Energy Ltd. Has adopted five key success factors: performance management, enterprise risk management, operational excellence, people management and adaptive business models. ENHANCE PERFORMANCE MANAGEMENTThe era of easy oil is coming to an end. The rising cost of exploration, depletion of the globally available oil deposit, increasing demand for energy supply, and the increasing concern for human caused global warming poses a daunting challenge for oil companies going forward. There will be an ever increasing competition for oil and gas companies in the years to come. Company board and management needs to retool the levels performance management to achieve greater returns on investments for shareholders. Linc Energy has a revamped performance management scheme: Remuneration is tied to various performance criteria up and down the management level. Especially executive reward is designed to be dependent on a set of key criteria. Competitiveness and reasonablenessAcceptability to shareholders. Performance Linkage/alignment of executive compensation; andDeliver a balanced solution addressing all elements of total remuneration. The company has structured its executive remuneration packages to meet the industry level and in alignment with the shareholders' expectation. MANAGE ENTERPRISE WIDE RISKAn all-encompassing risk management scheme is an imperative to monitor, control and mitigate risks that are inherent in the industry and new frontiers the company is entering to. Linc Energy has given risk management its due focus and has an established Risk Management Committee. The

committee comprises of the Chairman Mr Ken Dark and an independent director Mr Jon Mathews. The risk management committee members individually and the committee in the group have full access to internal and external resources. This includes access to advice from external consultants or specialists. The committee has a scheduled regular meeting. In 2012 alone the committee has met four times to assess enterprise wide risks in the industry and to recommend the board on how best to position the company to mitigate any risks in the industry. The company has diversified its portfolio, both in terms of sectors and geographies, to considerably distribute risks among various ventures and regions. OPERATIONAL EXCELLENCEOperational excellence at Linc Energy is geared towards increasing operational efficiency and reducing associated operational costs. Operationally Linc Energy has divisions dealing with Oil & Gas, clean energy, coal, SAPEX and Corporate Operations. Operationally, The company has been focused on maintaining cash flows through the development of existing low-risk opportunities. Linc Energy’s currently producing asset base USA gulf coast region contains appreciable short term drilling opportunities. The plan for the second half of 2012 and all of 2013 is to drill approximately new 60 wells and starting another 30 recompletions. The company has been ramping up long-term, proved reserves through the development of Umiat. This is a concession in the North Slope region of Alaska, USA, where Linc Energy has acquired 84. 5% of the interest. Linc Energy has been aggressively developing Wyoming assets to increase production. The Oil & Gas operation plans to use an enhanced oil recovery technics of CO2 flooding to aggressively develop the Group’s tenements. This will help

maximize the value of the resource‘ s potential in Wyoming, USA. The company has been actively managing the risks and rewards of the drilling program. As of 30 June 2012, the Oil & Gas division has been operating 100% of the wells all wells of the company’s proven reserves. Linc Energy has been leveraging technological expertise to ensure high return projects. The company has assembled highly effective and experienced teams of geological, geophysical, and engineering professionals to appraise and develop the oil & gas portfolio of assets; and to further explore for significant untapped potentials. PEOPLE MANAGEMENTWith the opening of new office in Houston, Texas and other acquisition at different places the company has increased its human resource base. However, as any growing business does, the human resource base has to also grow to match the business needs. Accordingly the company’s HR staffs have been busy recruiting new highly trained and experienced employees. At the top management level, Scott Broussard has been employed to the position of President , Oil & Gas division; Billy Young to the position of COO of Oil & Gas division; Jude Rolfes to the position of CFO oil and gas division; and Corri Feige General Manager of the newly acquired Alaska operation. ADAPTIVE BUSINESS MODELSLinc Energy Ltd. has been diversifying its portfolio over the years. The company has invested in synthetic diesel which now has become ready for commercialization. The UCG-GTL plant in Chinchilla, Queensland is awaiting a permit from the local government to commercialize the produce. The plant at chinchilla could produce 10 barrels of synthetic Jet fuel per day in the beginning. In addition the company has made the biggest ever shale oil find in its South Australia concession which is estimated to be worth more than

200billion dollars at the current oil market price. The company follows an adaptive business model to meet the demands and challenges of the era and to stay relevant in the ever competitive energy market of the day.

3. 7Industry Attractiveness

The industry is by and large unattractive for new entrants. Several factors could be attributed to this. The growing shift in political and public opinion towards hydrocarbon based energy sources is forcing existing companies to make the necessary adjustments to cope with punitive measures like a carbon tax levelled against the industry. Moreover, the amount of capital required to start a business in the oil and gas sector is not easy to come by. New ventures tend to get more into the renewable energy sector than into Oil & Gas. If existing industry players make the necessary adjustment to neutralize effects of taxation or emission trading schemes, with the ever increasing demand for cheap energy the oil and gas industry together with coal will remain relevant for the long haul. As far as Linc Energy is concerned, its adoption of clean energy technologies such as UCG-GTL gives it an edge compared to traditional Oil & Gas companies. Linc Energy still has operations in different countries and different continents, shielding its operation from the whim of a single political domain. Moreover, Linc Energy is diversifying its portfolio to do away with relying only on one source of energy.

4. 0About Linc Energy

4. 1Source Issue

Linc Energy being a raw material (oil, gas and coal among others) based mining company in the energy sector will have to deal with sustainability and longevity of the resource and associated technology. Eventual depletion of resources, coal oil and to an extent gas has a finite number of available resources to be extracted. Once this point is reached all production may cease, and the industry becomes defunct. This will also lead to problems maintaining a stable and profitable operation as the resources reach critical levels, causing competition from other incoming new technologies.

4. 2Secondary Issues

Short term issues having an impact upon the company include: Consumer acceptance of the energy sources being offered by the company. This is generally a trend as a result of changing economic and environmental climates where the trend in the market tends towards more environmentally friendly energy sources both outside and within the mining sector. Changes in the economic landscape e. g. new taxes or significant changes in operations costs. This can be overcome by adjusting operational practices to factor in new these new avenues of expense. Long term issues the company will have to face include: Market fluctuations where price of materials drops. Where for a period the market value of Linc Energy’s products have the potential to make the operations non profitable.

4. 3Analysis

4. 3. 1Financial Position

Linc Energy’s financial position for the last three successive years as calculated from the respective annual reports is as follows. Here it can be clearly seen that the return on assests has grown significantly in 2012 and this will hopefully continue.

2012

2011

2010

CURRENT RATIO

0. 4510. 79089

RETURN ON ASSETS

152. 46 %89. 36 %74. 36 %

GROSS PROFIT MARGIN

0. 3611. 9169. 83

DEBT TO EQUITY

0. 5270. 0610. 106

INTEREST COVERAGE

6. 910. 7335. 62

4. 3. 2SWOT Analysis of Linc Energy

STRENGTHS

223 Billion barrel shale oil find at cooper pedyState of the art demonstration plant. Expanding market reach all over the world. Brand recognition and growing share holders confidence. Ownership of proven process UCG-GTL technology. Leader in the Ucg-GTL market.

WEAKNESSES

Weak cash flows. Current GTL process consumes a lot of water. GTL chemicals pose risk of aquifer polution. Assets highly spreard all over the world. Small human resource

OPPORTUNITIES

Organic growth of energy demand globallyLow emission UCG-GTL products. Synthtic diesel’s growing popularity globallyNew joint ventures in China to produce synthetic jet fuel. Uses an otherwise unrecoverable coals making acquisition of deposites cheaper.

THREATS

Carbon tax poses threat at the front end. Volatility of oil prices in global market. Economic ripple from European economic jitters. Possible slowdown in China. Excessive environmental activism. Growing Concern about global warming and revulsion for carbon based energy sources. Tightening labor market for staffing.

4. 3. 3Current Strategy

The current strategy employed by Linc Energy entails commercialisation and expansion of the business via globalisation and development of new technologies in the field of coal, oil and gas alongside development of clean energy to support today's energy requirements and those in the near future. An example of this is the development of the Jet A-1 fuel which is designed with a combination UGC (Underground Coal Gasification Technical Process) and GTL (Gas to Liquids) technologies to be almost completely free of Sulphur, Nitrogen and aromatic hydrocarbons. The benefits have been demonstrated with a 4, 200 kilometre jet flight across Australia in promotion of the fuel and its characteristics. The investments in global operations such as the newly established operations in Texas demonstrate the company's desire to expand globally and further commercialise its operations.

4. 3. 4Coping with Fragmentation

Linc Energy being in a fairly mature and developed energy market through coal, oil and gas don't have to be so concerned with fragmentation in the current climate. However this may become an issue as more innovations and technologies cause the energy market to become far more diverse and complicated as a result of the changes in the commercial market. At present the coal, oil and gas energy markets are fairly stable and in a period where the primary resources make up the greatest part of the sectors in which Linc Energy is involved. The main source of fragmentation within the company is maintaining effective management of the 3 separate sectors along with the inclusion of the clean energy division. The following table provide indicators

of the fragmentation status of Linc Energy when compared to the ideals established by Porter’s theories.

PORTER’S THEORY

LINC ENERGY

Tightly managed decentralisationThe company aims to become a globally known company however there is a limited number of available resources and locations which help to control the decentralisation of the company’s operationsSpecialisation by product type or segmentLinc energy are a part of the energy sector and have specialise in mining based sources, this keeps the company in a focused sector and only concern themselves with mining related technologiesFocused geographic areaThe company is focused don areas rich in resources fit for extraction. However this is on a global scale and research and investigation is required before projects can be considered operable. Increase value addedThe company will conduct research and investigation similar to the previous item to assess the potential gains of the new venture.

4. 3. 5Price & Cost Competitiveness

The utilisation of UCG technology allows Linc Energy to extract gas more cheaply than their other companies’ abilities to extract oil. Furthermore UCG techniques are cheaper than more traditional coal seam processes providing a cost advantage over fellow clean gas companies also. The world price of oil being greater than that of clean gas provides a competitive advantage to Linc Energy – in terms of demand. This does mean that revenues earned will be less for equal quantities sold, however the cost advantage allows profits

to be favourable. That is Linc Energy can produce cheap and sell cheap compared with having to produce relatively expensive and sell relatively expensive. Additionally Linc Energy's competitive costs allow the company to sell their product cheaper than others selling the same product.

4. 3. 6Linc Energy's Competitive Position?

Linc Energy is in quite a strong competitive position - despite the current economic downturn the company is successfully increasing its commercial operation. In fact the low economic growth has resulted in lowering production costs, a factor that Linc Energy has taken advantage of by acquiring new technologies that will have produce long term revenues, especially with the global shift towards alternative fuels.

SIGNS OF COMPETITIVE STRENGTHS

SIGNS OF COMPETITIVE WEAKNESS

Only commercial UCG facility in the worldLesser economies of scale compared with powerhouse companiesRefine their own product before saleSusceptible to world pricesPatents in UCG technologyUtilising relatively new technologies can and has resulted in maintenance issuesRecent discovery of large oil field in SANon-Renewable product – limited supplyDiversity of product – both traditional oil as well as alternative fuelsProcesses require large quantities of water

4. 3. 7Strategic Issues

The main strategic issues the Linc Energy may face include: Management issues due to global operationsNew competing technologies constantly

entering the marketLong-term viability of the fossil fuels based energy sector as economic conditions change, inclusive of impacts resulting from the depleting available resources/reserves of oil and coal. Growth of the industry due to declining availability of a skilled and qualified workforce to maintain and/or expand operations. External influences such as cultural opinion shifts regarding the use of fossil fuels and the increasing demand for clean friendly sources of energy causing a significant shift in the development of the mining industry. General increasing costs from new taxes to increasing operational costs due to inflation.

4. 4Strategic Traps

In the development of any strategic plan for any company that wishes to become successful the following seven strategic traps should be considered:" Organizations fail to recognize and understand events and changing conditions in the competitive environment."" Organizations base strategies on a flawed set of assumptions."" Organizations pursue a one-dimensional strategy that fails to create or sustain a long-term competitive advantage."" Organizations diversify for all the wrong reasons."" Organizations fail to structure and implement mechanisms that ensure the coordination and integration of core processes and key functions across organizational boundaries."¬" Organizations set arbitrary and inflexible goals and implement a system of controls that fail to achieve a balance among culture, rewards and boundaries."" Organizations fail to provide the leadership essential to the successful implementation of strategic change." (Picken & Dess, 1996)With regard to Linc Energy it is apparent that these

have been considered to some degree, and to give a couple of examples: The instalment of a dedicated team of leaders to the Board has allowed to company to evolve and develop a reputation among the mining energy market. The development of the clean energy division has been implemented indirectly as the result of the first strategic trap. This has allowed to company to begin development of a source of energy that will become prominent in the near future, ensuring the company remains in the energy sector from coal and oil & gas. And with reference to number 4, Linc Energy hasn't diversified for the wrong reasons; they remain focused on the oil, gas and coal mining industries for the purposes of energy production and have expanded globally only where the means have been adequately justified. There is evidence that careful considerations is taken before investing in a new venture, such as the investigations in South Africa and the U. K.

4. 5Criteria of Evaluation

4. 6Alternatives

Linc Energy can approach its strategy a little differently in the short and long term which may provide a greater level of success. However, this is difficult to suggest as the energy industry is almost as simple as finding a resource, and providing it to the market as quickly as possible. This is extended a little bit in the offering of resources and products that are cleaner for example, which Linc Energy is already fielding. SHORT-TERMOn a short term basis, one such alternative is to have Linc Energy develop products that target a different audience. For example, they have shown they can develop quality

aviation fuels, so it would be fair to suggest they could also provide other speciality fuels, or even to go as far as to develop fuels for the typical passenger car. In addition, LONG-TERMOver the long term, a myriad of alternatives could be suggested, and due to the nature of the energy industry, it would be hard to know whether any would have an impact. One such suggestion is for Linc Energy to move into another energy commodity, nuclear. This would involve the mining and processing of Uranium and other radioactive substances. This is of particular interest in Australia, due to the current laws prohibiting or minimising the trade of Uranium. However, in the future this may change and could provide a strong revenue base for the companies involved.

4. 7Recommended Strategy

SHORT-TERMIn the short term, it is our recommendation that Linc Energy to carry on as is, and develop its current product line-ups, such as aviation fuels, so as to ensure they enjoy a high degree of usage throughout the industry. To achieve this, the products should meet or exceed the offerings from competitors, and also show that it is a product that will also be undergoing advancement. It is also a wise suggestion that they ensure all or any further acquisitions be done in such a way as to integrate each company as much as possible, to ensure a high level of interdependence. LONG-TERMOver the long term, it is recommended that Linc Energy should first and foremost further develop its UCG technologies and ensure they become a leader in this field. This would mean they maintain their monopoly by ensuring they have the only, or the best, UCG facility in the world. In order to

achieve this, further acquisitions would be required over the long term. In addition to this, their recent discovery of Shale Oil resources is a good opportunity to take a stronghold of the Shale Oil industry within Australia and this commodity should be utilised and developed as much as practicable over the coming years. It is also suggested, that whilst acquisitions may prove beneficial, it is wise to approach this activity with caution, as if too many acquisitions are partaken, or if the wrong decision is made, a strong backlash from investors and even employees can cause a serious level of fragmentation throughout the entities.

4. 8Justification for Strategy

SHORT-TERMIt has already been shown that Linc Energy's product offerings have been successful; however as with anything it can certainly still be improved upon. This is a never ending quest, and should always be pursued. As soon as complacency enters reasoning, the product may begin to suffer against competitive products and this will ensure a quick demise of Linc Energy. LONG-TERMTo justify our recommended strategies over the long term, one just has to look as far as the biggest mining company in Australia and their activities. BHP play in almost every resource arena, one of them Uranium. They operate the largest Uranium mine in Australia and are poised to benefit greatly by any decisions to allow the trade of Uranium. This provides justification to our suggestion that Linc Energy should enter this market also. In addition, when it comes to acquisitions, General Electric is a prime example. They are one of the biggest companies in the World and have operated by purchasing companies over the years which would provide

an avenue of entry to a specific market. One such purchase was Vetco Gray, which agave GE entry to the Oil and Gas arena. Whilst most of their purchases have been successful, there is still a high level of segmentation between each division of the company. This causes discouraging levels of inefficiencies throughout the company. Something that Linc Energy should be weary of.

4. 9Implementation

Below is a basic timeline for the implementation of the strategies suggested in the previous section.

Year 1

Year 2

Year 3

Q1Q2Q3Q4Q1Q2Q3Q4Q1Q2Q3

Improvement Of Current Products

Development Of New Products

Uranium Expansion

Further Acquisitions

5. 0Comparison of Industry vs. Linc Energy

6. 0Conclusion & Recommendations