

AMERICAN INDUSTRIAL PARTNERS – SERVA GROUP

MARKET ENTRY STRATEGY FOR HIGH PRESSURE HYDRAULIC FRACTURING FLUID ENDS

Student Team:

L. Yancey May – Dual (MBA/Master of Science in Natural Resources & Environment)
 Varun Mudegowdra – Master of Supply Chain Management
 Edgaras Varnelis – Master of Business Administration

Project Sponsors:

Tom Hull – Pump Program Manager
 Derek Leck – AIP Partner/Serva Co-CTO
 Jim Pace – Marketing Manager (Hydraulic Fracturing Equipment Subject Matter Expert)

Faculty Advisors:

David Chesney – College of Engineering
 Brian Wu – Ross School of Business

Serva is an oil field equipment supplier that assembles specialized well stimulation equipment for oil field service companies. Acquired by American Industrial Partners (AIP) in May 2014, Serva seeks to expand their product portfolio to include high pressure fluid ends, a business in which Serva was previously involved before being forced to exit due to product quality issues. High pressure hydraulic fracturing uses plunger pumps comprised of two main parts: the power end, which drives the plungers, and the fluid end, which moves the fracturing fluid. The current duty cycles in the oil field result in fluid ends failing frequently, and fracturing companies require constant spares replacement.

Serva hopes to capitalize on the fracturing activity lull caused by the drop in oil prices by increasing its product and service offering while other competitors and firms are struggling due to low business volume. The current business environment provides a chance for significant market penetration through successful product development and supply chain management. The ultimate goal of the company is to be well positioned for rapid growth when oil prices rebound and new well stimulation increases.

The purpose of the AIP Serva Tauber project was to develop a business plan that will enable Serva to re-enter the high pressure fluid end market and grow that product line to \$100 million in annual revenue. This entailed analyzing the market and customer base, developing an overall marketing and sales plan, optimizing the supply chain and distribution networks, and valuating the business's future potential.

The Tauber team developed a market entry strategy for Serva fluid end product line, a business start-up, to build basic product line, validate the performance of the products, and successfully bring the product to market. The implementation timeline generally followed three overlapping product development phases: R&D, Piloting, and Commercialization. The Tauber team recommended that Serva first develop a three pronged product line that would satisfy the majority of the existing fluid end customer base. The Product validation will be carried out via rigorous in-field monitoring. Additionally, the Tauber team suggested reorganizing Serva's existing sales organization, optimizing their supply chain and relationship with their Chinese joint venture manufacturing partner SJS, and adding additional personnel. Initial product commercialization is expected to occur in the near future and, barring unfavorable market conditions, the \$100 million revenue target should be attainable by 2020.