

Into the Deep Unknown

*The UK economy needs innovative businesses with an appetite for international expansion. Criticleye and **Mike Reeves**, Divisional Managing Director at Santander UK Corporate Banking, talk to **Neil Douglas**, MD and Co-founder of Viper Subsea, about the growth challenges he faces and how a recent contract win in Brazil could prove vital for the company's future success*

Back in 2007, Neil Douglas and his business partner Max Nodder quit their corporate jobs in the oil and gas industry to set up their own business. They had £45,000 of working capital and a business plan that they hoped might just shake up an entire industry.

“I probably had less of a risk because I’m married with no kids and no dependents,” says Neil. “My wife worked so, in my mind, if I left and it didn’t happen and failed after two years, we’d still have the house. Max had a couple of kids so it was a bigger risk for him but, anyway, we probably spent about 18 months building a business case and plan, then stress testing it.”

The company, Viper Subsea, now has 30 employees, a large number of sub-contractors and last year it posted revenue of £2.3 million, a figure which is expected to rise to £4.2 million this year with a goal of hitting £16 million by 2016. That’s not bad for a company set up in one of the worst economic downturns for a century.

“We started up the business just as the crash came,” reflects Neil. “So the timing was not great from that perspective but from early on we were quite successful. We secured some large contracts, well, they were large for a newly started company, to keep us going. We paid the overheads from the first year and that certainly enabled us to start investing.”

Initially, the company acted as a consultancy whereby engineers were sub-contracted onto specific subsea projects. However, the fast-track to high growth is to be achieved by focusing on designing and supplying underwater distribution systems and equipment (hydraulic, chemical, electrical and/ or optical) for

the oil and gas industry. “The business, fundamentally, was that we would go out and do consulting, which has good cash generation and high margins, and we would reinvest that money into product development.

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“In order to realise long-term growth, sure, we could have probably continued doing nothing but consultancy, but the challenge in the industry is resources and we knew we couldn’t get the engineers, specifically with subsea experience, to realise the growth we wanted.”

Over the first four years, around 30 per cent of the profits generated from consulting were reinvested in product development, a significant sum for any business, let alone a start-up. There was clearly a gamble here as the payback period for such investment was always going to be protracted and, of course, nothing was guaranteed in terms of industry acceptance of the products.

“We’ve had to transition from the consultancy through to the products that we sell. Now, having knowledge of the industry, we knew the gestation period for new products was worse than in the pharmaceutical or defence industries.

Everyone wants to be the third or fourth buyer in our industry as they don’t want the risk – if something is put in the seabed and goes wrong, it’s £1 million or more to recover it.

“There was always going to be a long period of design, pre-production prototypes and then a thorough programme of testing in simulated environments to make sure all the little failures are taken out... It’s a bit like putting something into space, where it costs a lot to put it there and then to repair if something goes wrong. That meant we had four years in which we had to grow the business on the back of the revenue from the consultancy.”

A LONG VOYAGE

Fortunately, the products are proving popular as companies around the world look to develop underwater exploration and mining. According to Neil, the subsea market is worth around \$20 billion a year from hardware and the supply of services, with the UK having about a third of that market, which puts it second only to Norway.

Over the next five years, the market is expected to grow to \$30 billion annually. If Viper is to capitalise on this opportunity, it needs a strong and sophisticated strategy for international expansion. Neil explains: “The UK is fighting to keep its number two position, or at least to be a major player in that market. As more of the subsea developments are abroad, a bigger percentage of growth is going to come from exports.

“So we obviously have to be set up to increase our market share through product sales in that huge and growing ►

market. Although we are looking to continue manufacturing in – and to export from – the UK, what we are going to need is a presence across the world where all the subsea oil and gas centres are, such as Australasia, South America, the Gulf of Mexico and places like Azerbaijan.”

The plan is to establish facilities in these areas, creating in the process a business which is genuinely international. To this end, Viper has successfully secured a contract to supply equipment for a deep-water development in Brazil, a key market which is predicted to account for 50 per cent of all subsea sales in the not too

distant future. “It’s not easy to get into,” says Neil. “If you expect to start looking at Brazil now and realise sales next year, you’re wasting your time. You’re probably looking at a three-year challenge but we were successful in getting in two years after starting.”

In October last year, Neil went to Brazil as part of the [Santander Breakthrough](#) trade mission (see box out). “The timing was really good because we’d already submitted a tender to a company in Brazil and we used that trip to go and see the company and their client,” he says.

The face-to-face meeting was crucial. “It was that discussion with the end user of our product in the country that actually swung the deal because they obviously were aware that our client wanted to use this new product.”

That end customer was Petrobras, the national oil company of Brazil. “I got in to see them and they were really quite excited about the product and basically said, ‘We see a long-term future for this with Petrobras. We’re happy for your customer to go ahead and supply it.’ So within a month, or maybe six weeks of coming back, we had the contract. It wasn’t of huge value, but it’s our first one in Brazil and that’s significant.”

Those kinds of meetings are invaluable for smaller businesses. Neil has since been back on a second trade mission with the Breakthrough programme, making more contacts and firming up his plan for building a presence in one of the world’s fastest-growing economies. “It can be one of the most challenging countries to get into and start trading in,” he admits. “I guess that is why most companies try and go ►

TURBO-CHARGED SMEs

The real need for additional support for businesses occurs for those in the turnover range of between £2 million to £10 million. It’s these businesses that, after going through a two or three year gestation period, get themselves a stable foundation but then they really want to go forward.

Knowing how to do that isn’t easy. Traditionally, the answer would come from either putting your house up as a guarantee or relinquishing a big stake of your business to private-equity backers. Without doing that, what options are there to move a business forward to the next stage?

In part, the Breakthrough Programme, which is aimed at companies of between £500,000 and £10 million per annum which have posted growth of 20 per cent or more in turnover, profit or employment, comes from trying to answer that question in a different way. It provides a network of support for businesses to use as a way to inform and map out their path to high growth and success.

For Viper Subsea, it was a case of facilitating networking opportunities overseas, while also helping to assist operationally, such as with their approach to marketing by identifying an intern for the business (who has

gone on to be employed by them and is executing their new marketing strategy). There are plenty of companies in the UK like Viper which can make meaningful contributions to the UK economy through international expansion.

When it comes to banking facilities and finance for companies, I do think it’s important to try and have a fresh approach in trying to understand where the management team want to take a business. Unfortunately, in the banking industry, it’s become standard to immediately ask for personal guarantees and to look for collateral which, in many instances, effectively plants a flag on someone’s house.

Really, the relationship should involve assessing the health of the business, the quality of the management team and being innovative in providing real solutions to help businesses, so that facilities around trade finance, for example, can genuinely give a business extra headroom as it seeks to push boundaries and expand.

Mike Reeves

MD
Thames Valley & South East
Santander

to the US or Australia, where at least the language is the same and trading is easier. But for us it's the biggest market."

The transition of the business model, combined with accelerated growth, provides the founders of Viper with a number of challenges. This ranges from introducing and training a new level of middle management, bringing in and maintaining an enterprise resource planning programme, to keeping on top of different payment cycles as the steady revenue stream from consultancy is replaced with the lumpy, less predictable sales from products.

"We have milestone payments from clients where a whole series of products may be tested," says Neil. "If one of those products is late for any reason, the milestone [payment] doesn't come in and you've got suppliers to be paid. We are looking at our cashflow and focusing on it now more than we've ever had to."

But, for all this, Neil is thrilled with how the business, with its niche products, heavy investment in research and development and powerful portfolio of intellectual property rights, is going from strength to strength. "We've been through this phase of bringing products to market so, quite clearly, there's a reason why

competitors, clients and investors in the industry like what we're doing."

The satisfaction is understandable. "We're enjoying the ride at the moment," he says. "If you ask me what I get a buzz out of, well, the bottom line always helps and winning contracts and the like.

But it's things like the Christmas party

we had last year and seeing how many jobs you've created, and thinking that for all those people, you created employment for them.

"Then you start thinking, wow, we also subcontract a whole lot of work so we can probably double

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*We're not investing for an exit.
We're investing for the future*

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that number just in our sub-suppliers. That's really the drive and the buzz for me at the moment because of the growth we're seeing. We're not investing for an exit. We're investing for the future."

The gamble of leaving the corporate life behind appears to be paying off nicely. ■

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This article forms part of a series of interviews with high growth businesses conducted in association with the [Santander Breakthrough](#) programme

£16m
projected revenue
by 2016



Neil Douglas
Managing Director
and Co-founder
Viper Subsea

Viper Subsea Technology Ltd (formerly Viper Subsea Ltd) was founded in April 2007 by the current shareholders. It offers a range of engineering services to the Oil & Gas Industry with a focus on the design and supply of Subsea Distribution Systems and equipment (hydraulic, chemical, electrical and/or optical). Before this, Neil was head of Systems Engineering and a Project Manager at GE Oil & Gas.



Mike Reeves
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Mike is currently the Divisional managing Director for Santander Business, Commercial and Corporate Banking in Thames Valley and the South West. This includes teams in Bristol, Reading and Southampton providing relationship banking for businesses with turnover upwards of £250,000 per annum. Mike joined Santander in December 2009 following a 23-year career with RBS predominantly working within the Corporate Banking sector in both London and the Thames Valley.

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