



## Accelerating The Sand Rush

*The recent boom in hydrofracking for natural gas has created a wild west of entrepreneurial activity. As companies race to get in on the action, one company has leaped ahead with tax-savvy strategies and inventive technology to efficiently manage and accelerate the fervent rush for "frac" sand.*

**WIPFLI**<sup>LLP</sup>  
CPAs and Consultants

For the Texas-based company, it was a common sight: 50 to 100 trucks cued up at any one of the company's various North American transload stations in waiting to load sand for delivery to well sites across the country. With trucks arriving around the clock, each requiring time to load and weigh up to 50,000 pounds of sand, complete paperwork, and haul away their loads, Sand Source Services knew there had to be a better, faster way to speed up the frenetic rush for sand, and in doing so, create efficiencies for both suppliers and customers.

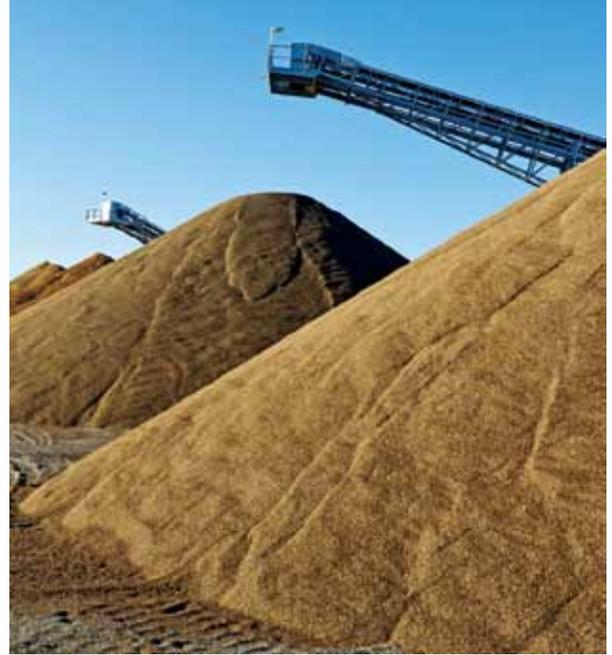
Sand Source Services is a leading provider of logistics services for the oil and gas industry. Specifically, Sand Source operates a network of transload facilities across North America including eight plants in Canada and a 350-acre facility in the Bakken, North Dakota, that specialize in the storage and transloading of "frac" sand used in the stimulation of non-conventional wells. Facilities are staffed 24/7 and often experience nonstop activity.

That's because the recent boom in hydrofracking for natural gas has created intense demand for Silica sand, otherwise known as frac sand. The sand is key to the success of getting natural gas and oil out of the earth. It's used as "proppant" material to hold fissures open during hydraulic fracturing.

And it's big business. According to the U.S. Geological Survey, the market for the sand has doubled just since 2008.

Frac sand is extremely hard, well rounded, and composed of almost pure quartz. After mining and before shipping, the sand is washed, sorted to ensure uniformity, and then dried. It's then stored and subsequently transloaded at silo-storage facilities like those owned and operated by Sand Source.

Sand Source has provided frac sand transloading services since 1998. More importantly, the company strives to provide timely *information*. As business began to skyrocket, the company set out to minimize customers' loading times and maximize sand suppliers' access to inventory information.



## High Tech Meets Wild West

Sand Source has always recognized the value of getting timely and accurate logistics information to its suppliers and customers.

"Sand Source is well known for providing superior service and value to our customers' supply chain logistics, as well as having a forward-leaning culture of embracing technology solutions," says Tangela Blain, the company's Vice President of Finance. "Because it's extremely important for us to help our customers better manage their supply chain logistics, we knew we wanted to embark on an ERP solution project."

For a growing company in a fast-growing industry, however, internal IT resources and an infrastructure to take on a new, business-enhancement project of this scale were scarce. The company called on Wipfli to help improve its information timeliness by creating greater visibility into inventories, automating processes, and enhancing communication with suppliers and customers.



“Wipfli made a powerful impression on our leadership team,” explains Blain. “They knew our industry well, had all the technical expertise, asked great questions, and listened. They truly had a solid understanding of what a solution like the one we wanted to implement would mean to us and to our industry.”

The ultimate project goal was to make it as fast and easy as possible for suppliers to ship and store their sand products at Sand Source and for customers to track and load those products. Streamlining Sand Source’s own processes was also essential to the overall objective, and any technology that would be introduced would need to include accounting for country specific regulations and taxes.

The two biggest challenges Sand Source faced were technical and cultural in nature. “We essentially had an outdated and at capacity legacy database and desperately needed a more modern ERP solution,” Blain says. “Plus we knew change management was going to be key. Our people were very comfortable and familiar with the ‘old’ system. It became important for us to manage the change internally and get our people involved in the new solution, doing whatever we could to aid our employees in embracing and learning it.”

Wipfli’s solution to all of Sand Source’s needs and challenges was Microsoft Dynamics® AX. A robust software solution, it would help support the rapidly changing conditions common to Sand Source, in such a high demand-driven environment. And with its easy adoption, it also empowers people to embrace change.

## Corralling the Data, Wrangling in the Details

Wipfli worked closely with Sand Source to flesh out the features and functionalities its software users expected. It then set to work building an inventory system that would allow Sand Source to track which supplier’s sand went where and when.

Midway into the project, Sand Source recognized it did not have the adequate resources internally to conduct its own business process analysis. “We weren’t the easiest customer as far as being really crisp about the processes we had in place. Wipfli helped us figure it all out,” says Blain. “Even when we ran into a lot of curveballs in how operators ran the transloads, Wipfli was very flexible. They were able to step in and provide the assistance we needed.”

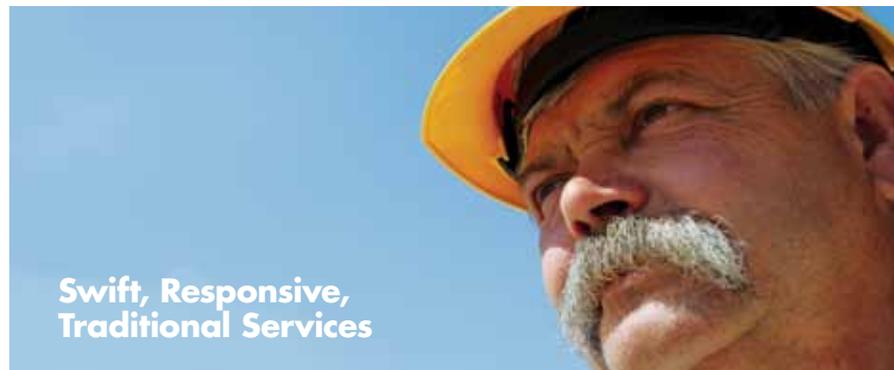
The entire technology effort included programming the manually intensive, internal process of managing transactions and loads, both inbound and outbound. Previously, paperwork was completed manually both as sand shipments arrived by rail and as customers subsequently trucked away sand orders. Paperwork from throughout the company’s 13 transload facilities was then faxed to Sand Source’s corporate offices for a second round of manual entry.

With the new software implementation, double entry was eliminated, creating savings in both time and money for Sand Source as well as improving the company’s overall service on both ends of distribution.

In addition, Wipfli helped Sand Source go beyond the traditional transloader in its service offerings by creating a custom, web-accessible inventory management program and database. The proprietary application provides up-to-date data regarding purchase and shipments, which helps customers track their product through the logistics value chain—information that is essential for project planning, internal reporting, and reconciling invoices. By creating a web portal, suppliers were given more control to easily enter all orders and pickups remotely, further supporting a more efficient, self-service transload experience.

To further customize and automate transloading at the 13 locations, Wipfli and its custom applications experts at SpiderLogic collaborated to develop an easy-to-use touch screen application. The state-of-the-art technology provides easy data entry for customers, captures load weights recorded directly from scales, and lets Sand Source staff quickly record new transload orders. The touch screens proved a smart alternative to keyboards, which weren’t a viable option because of harsh field conditions, cold climates and the need to wear gloves. The users went wild for them.

“We didn’t expect that Wipfli’s IT team would be so engaged and supportive in addressing change management issues as they were,” says Blain. “As a result of their solid change-management support, our transload operators eagerly embraced the new and improved solution.”



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Faced with fast company changes and the sharp growth of the industry, Sand Source also engaged Wipfli for ongoing tax and compliance help.

Because Sand Source is international (Canada) and interstate, staying current with the complex and changing tax laws, as well as state and local regulations can be an arduous task. Wipfli helped to identify and address issues involving sales tax, international tax, and other various state and local taxes, working to secure savings wherever possible and ensure compliance at every turn.

As Sand Source's business evolved, tax incentives for research and development could have been overlooked. As a result, Wipfli performed a Section 174 analysis to expense costs that would have ordinarily been capitalized.

For instance, Wipfli identified engineering costs (normally capitalized and depreciated over 15 years) that qualified as research allowing the company to take an immediate deduction, and therefore accelerated its depreciation. An additional R&D study allowed Sand Source to receive the R&D tax credits, which directly converts to tax savings. In just this one finding, Sand Source received a double benefit—an immediate deduction and an R&D tax credit.

Additionally, due to their growth when the growing Sand Source sought additional bank financing, Wipfli provided a reviewed financial statement.

### Up to Speed and On the Fast Track

To be truly competitive and differentiated in today's wild west of the frac sand and energy boom, Sand Source's strategy was to become as automated as possible. Yet like most busy companies with stretched resources, having the people power in-house to manage a new IT project, much less build a new solution was simply out of the question. The same can be said for the resources required to keep up with complicated tax laws. Outsourcing was the right answer, and Wipfli was the right partner.

Sand Source's newly created automation has eliminated errors and accelerated the loading process letting trucks hurry in, fill up, and hurry on to their fracking destinations with transaction printouts in hand. The software solution and web portal has also given sand suppliers much-welcome tracking visibility into their inventories, further creating real-time order status.

Sand Source now enjoys streamlined administrative processes, improved customer service, and annual data entry savings of at least \$160,000 in direct labor costs. With its fast self-service capabilities at transload facilities and quick access to information through the portal, both customers and suppliers recognize Sand Source as a company that's easy to do business with.

"We have a true competitive advantage in our industry," says Blain.



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