

Navigating the Crude Cycle

10 Strategic Actions for
National Oil Companies

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National oil companies (NOCs) have been the securers of supply, revenue collectors and engines of development for numerous countries. With low oil prices, however, both companies and governments are facing major headwinds.

Challenged to reduce costs and improve capital efficiency, many companies have cut spending and frozen hiring. Others are considering delaying maintenance and turnarounds to drive down operational expenditures.

Rather than relying on such quick fixes, however, NOCs need to implement strategies that yield sustainable benefits. Learning from the previous energy-related crisis of 2008–09, 1997, 1992 and 1986–87, industry observers understand that companies can win by taking strategic actions and by making targeted investments. By collaborating across the industry, making structural changes and optimizing internal capability to drive higher efficiency and agility, companies can emerge from uncertain times stronger and more competitive. Accenture suggests 10 actionable ideas for the NOCs.





1. Reset partnerships with core suppliers.

In the past crisis, many suppliers were pressured to reduce prices. This time around, many are prepared for this simplistic tactic. It will take a more sophisticated approach for NOCs to take greater advantage of the supplier market.

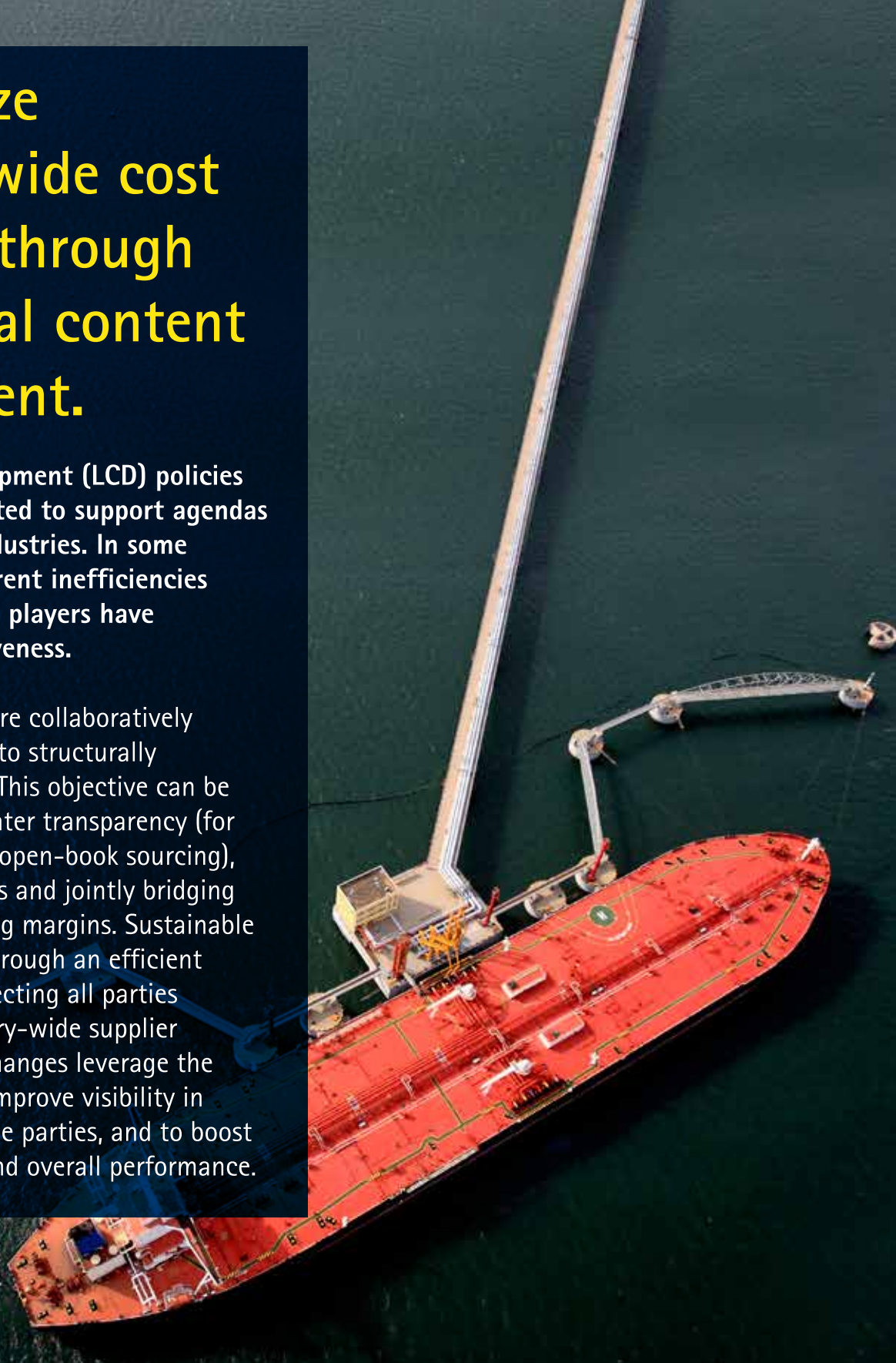
The first step is to identify strategic suppliers in key categories. With these strategic suppliers—likely in categories such as drilling and completions, engineering, construction, maintenance services, materials and

logistics—longer-term agreements should be renegotiated to seek immediate benefits in return for continuing and possibly expanding business. Revised agreements could include risk sharing, innovation and investment, and joint-performance targets and incentives. Establishing such strategic partnerships can enable NOCs and their strategic suppliers to increase their resiliency and emerge with long-term advantages.

2. Optimize industry-wide cost structure through better local content development.

Local content development (LCD) policies have been implemented to support agendas to build domestic industries. In some cases, however, inherent inefficiencies among local industry players have decreased competitiveness.

NOCs should work more collaboratively with local companies to structurally reduce the cost base. This objective can be achieved through greater transparency (for example, competitive open-book sourcing), benchmarking to peers and jointly bridging gaps while maintaining margins. Sustainable gains can be driven through an efficient digital platform connecting all parties involved in the industry-wide supplier ecosystem. These exchanges leverage the latest technology to improve visibility in interactions among the parties, and to boost process compliance and overall performance.



3. Improve collaboration for effective execution of capital projects.

Project teams frequently work in a "pilot mentality," a notion that assumes each capital project is unique. This approach limits leverage of best practices across projects. As a result, many projects routinely exceed cost estimates and schedules.

Many capital projects share certain characteristics, and cost benefits can be achieved through standard designs, systems, equipment and components. Industry efforts in this area are already under way at the World Economic Forum, and the outcomes could benefit most NOCs to reduce capital project budgets. Additionally, stronger central governance can help benchmark project performance across operators during execution. Best practices can be shared to avoid cost and schedule overruns, and vendor performance can be benchmarked to keep costs competitive.

A large offshore oil rig is shown in the background, featuring a tall derrick and various platforms. The rig is situated in the ocean under a clear blue sky. The rig's structure is primarily blue and red, with yellow cranes visible. The water in the foreground is a deep blue, and some rocky islands are visible in the distance.

4. Increase sharing of logistics assets and resource capacity across operators.

Multiple operators working in environments near each other are purchasing equipment, assets and hiring resources to fulfill similar requirements—an approach that reduces utilization and productivity.

By consolidating and coordinating the demand, and sharing logistics assets and resources across operators, large savings can be achieved. For example, a regional logistics control tower can efficiently increase utilization rates for marine vessels and helicopters. Developing shared supply bases and centralizing warehouses across operators can decrease freight-forwarding costs. In addition, turnaround squads can support activities efficiently for all operators in a production basin.



5. Balance the timing of asset maintenance with opportunity loss.

When prices are low, the lost profit opportunity of producing assets is less. Schedules for planned maintenance and turnarounds can be brought forward to the extent possible while balancing timing and opportunity cost.

High-performance companies consider the commercial impact of the asset hierarchy in maintenance strategies. Timely execution of turnaround and preventative maintenance optimize the maintenance cost and improve overall profitability. NOCs can optimize late field-life production, and focus on the most critical assets and equipment to "sweat their assets" as prices recover.



6. Equip the field with digital technology to boost productivity.

Downturns are clearly the best time to invest in innovative tools and solutions to be better prepared for the future. Accelerating the uptake of digital technology in the field can create tangible differentiation.

There are diverse possibilities to address the industry choke points through digital technologies. Examples include remote operating centers, big data analytics, a mobile-enhanced workforce, materials and equipment tracking. These technologies can transform the way NOCs work. Tangible benefits can be realized in increased people productivity, asset performance transparency and profit optimization of producing assets. Those who invest now are likely to reduce their cost base for future operations and realize the benefits earlier than competitors.

7. Consolidate internal support functions for a lower cost profile.

Integrated operating models for finance, human resources, procurement and information technology can lead to greater efficiency at reduced cost.

To achieve this objective, NOCs can consolidate functions to bring together similar capabilities, eliminating multiple locations that provide similar services to reduce inconsistencies and duplicative services. Back- and middle-office activities can be run as a service to local operators or transferred to a third party. Consolidation can allow operators to ride on the IT investments made and provide access to standardized IT infrastructure through the "software as a service" approach.

Many companies have taken steps in this direction. Now would be the time for NOCs to open up their business services models to this approach. Since the models have been tested, the transition can be accomplished relatively quickly with minimal business disruption.

8. Get smarter about people management.

Human capital and capability building should still remain a key priority for the NOCs. Accenture recommends leverage innovative solutions to increase the efficiency of training while optimizing costs.

Human capital is a key asset for the NOCs. Companies still need to continue to develop various technical, functional and leadership skills. Areas of technology such as distributed classroom, mobile learning, computer-based training, virtual academies and collaborative on-the-job coaching enable cost-effective and targeted training.



9. Reassess portfolios to deliver greater value.

Many NOCs have expanded portfolios internationally and into unconventional oil. The economic viability of this expansion should be revisited to ensure the intent of the growth agenda is likely to result in greater value. A crisis is always a good opportunity for targeted growth.

Amid low prices for crude, companies are scrambling to reevaluate expansion initiatives and capital projects. This reevaluation should also include non-performing assets.

A comprehensive reassessment should review areas such as engineering, financing, project-management capabilities and tools, key performance metrics, and procurement and contracting strategies for materials and services. Emerging leading practices expand the review approach to identify and quantify operational risk, and to assess the impact of expansion initiatives and capital projects on company portfolios. When the quantitative assessment is done correctly, it can be easier to make fact-based decisions on the portfolio that makes the most sense: which projects should be continued, delayed or cancelled, and which non-performing assets should be mothballed.



10. Develop cost transparency capability across the portfolio.

NOCs can benefit from having cost visibility across the portfolio of assets, and provide incentives that motivate operators to drive down costs.

Many companies have concerted efforts to optimize costs. However, not many are able to manage cost transparency in a consistent manner across their portfolio of assets. Cost transparency will allow the asset owner to increase sharing of cost optimization ideas across assets.



Hard times can be an intense motivator

While the business environment may remain difficult and unpredictable, NOCs can take action in numerous areas to lessen the blow to the bottom line and emerge more competitive.

Rather than simplistic, across-the-board cutbacks that can weaken a company's long-term position, leading companies focus on developing sustainable cost transparency and cost optimization capability. Companies also use the low-oil-price environment to invest in training people and implementing digital solutions to improve productivity and profitability.

While low prices for crude are undoubtedly painful for NOCs, leaders will use today's pain as inspiration to engineer new capabilities that will allow them to be agile in responding to the volatile crude cycle.





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