# On the right track?

TRUST IN
Resilience

BY SCOTT CONSTANCE

Almost a hundred years ago, one of the biggest stars in Hollywood movies was a cowboy-philosopher named Will Rogers. He won the hearts of audiences in part because he said, "I never met a man I didn't like", which is a maxim from which we could all likely benefit.

But Rogers also had interesting thoughts about success in business and how to be resilient in the face of change. One that comes to mind, as I look at the oil and gas industry and its response to the drop in prices throughout the supply chain, states: "Even if you're on the right track, you'll get run over if you just sit there."

Executives, managers, and field personnel within the industry are working hard trying to stem the rising tide of red ink. Many of the responses we have seen from companies to reduce cost and improve efficiency certainly qualify as being on the right track. The problem is that many of the actions don't go fast enough or far enough, so there is a real risk of companies being run over amidst intensifying competition and increasing marketplace volatility.

There are three ways for oil and gas companies to move faster and farther down the right track that many are on. The first involves sharing information beyond the usual local scope of how operations are managed. Often, field operations managers are highly empowered to make things happen — buying equipment and materials and ensuring timely delivery among them. But because many organisations fail to keep their people on the ground informed about the level of assets on-hand at a group level, many of these operations managers tend to make duplicative and less efficient purchases.

This inefficiency really matters! Oil and gas companies can increase their forecast accuracy and avoid capital expenditures by up to 50% by sharing their supply chain information more broadly among their internal stakeholders. By sharing information across the organisation, trust is built and collaboration increases between different parts of the business.

In such turbulent times, sustaining trust among your employees is more important than ever. It drives higher levels of employee engagement and grants the organisation its continued licence to operate. Finally, by improving visibility and reducing the risk of an earnings surprise, companies can minimise their exposure to significant changes in share value in a volatile market.

To move faster down this track, a company may need to upgrade its information technology, but it won't need the most sophisticated analytical or technical capabilities. What really matters is being able to see — across multiple sites and operating units — what is needed for delivery and when, what assets are on hand, and which are on the way.

If a company doesn't have, or isn't using this important data, then one way is clear on how it can be moving faster and farther down the right track. Turning data into insight is indeed a compelling way to build transparency among your employees and suppliers.

The second way for companies to move faster and farther down the right track is to more closely analyse their day-to-day spending for variances and inefficiencies. The capital-intensive nature of the oil and gas business means that single procurement decisions and tender awards are always meaningful. In today's tough environment, many companies are scrutinising large contract awards even more closely, which is a smart thing to do — it puts them on the right track.

But, many companies don't do enough to propel themselves forward down the track. They often don't monitor the actual spending that occurs on a daily basis as part of contracts, and end up paying more than they should.

Analysis of actual day-to-day spending within companies often shows significant variance in purchase prices for commodities, fragmentation of vendors, and poor adherence to commercial terms negotiated as part of tender awards. Companies can save 8% to 10% annually — and can capture these gains rapidly — by paying more careful attention to this.

One challenge for many companies is that there often aren't robust pre-existing processes to manage spend. It can also be a difficult task to tie purchase orders and invoices back to original tender terms.

Finally, procurement data is often dispersed across multiple systems that can't be easily accessed or integrated.

However, those companies that effectively manage what they buy will gain a significant advantage on the bottom line. They will also be able to maximise shareholder value over the long term — moving faster and farther down the right track.

The third way for oil and gas companies to move faster and farther down the right track is to break down the organisational boundaries that pervade their businesses. In tough times, businesses put themselves on the right track by becoming more aggressive about managing towards improvement targets.

But companies stall their progress down the track by defining accountability strictly along departmental boundaries. Companies fall into this trap, for example, by telling individual department heads that their performance will be measured on reducing material spend by 5%, or that their bonus will be reduced if project timeliness doesn't improve

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# Break down boundaries

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by 10%. The fact is that very few improvement targets — if any — can be achieved by one department working alone.

Oil and gas companies are more likely to succeed if they break down departmental boundaries as part of making improvements. Doing so helps companies build trust within their organisations, improve repeatability and efficiency of processes, and enable growth. For example, with stronger cooperation, and more aligned financial incentives across the client's engineering and operations team, one major oil and gas equipment company was able to reduce the delivery lead time by 40% and reduce overall costs by 15%.

Your company may already be pursuing a number of the ideas mentioned here — if so, that's good news. Make sure that any efforts underway within your company are given the visibility and recognition that they deserve, because they are very valuable in the quest to maintain resilience and stakeholder trust during such unpredictable times.

But, as Will Rogers pointed out, simply being on the right track may not be enough. Any company in the oil and gas business needs to be looking hard at whether it is sharing enough information across its organisation, managing its day-to-day spending closely enough, and working effectively across departmental boundaries. These are the ways to move farther and faster down the right track.

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