

A large-scale photograph of an offshore oilfield platform at sunset. The platform's complex steel structure, including pipes, walkways, and support legs, is silhouetted against a bright orange and yellow sky. The sun is low on the horizon, creating a shimmering reflection on the dark ocean surface. In the background, several tall, cylindrical industrial towers are visible. A yellow banner is overlaid in the top left corner.

Oilfield services at a crossroads: structural changes ahead



Building a better working world



Executive summary

Oilfield services (OFS) companies must adapt to the change in the market landscape and to operators' expectations.

The majority of cost reductions are due to short-term and cyclical measures: a lower break-even point has been achieved, with downsizing and lower unit costs responsible for most of the savings. As a result, personnel have been leaving the workforce and assets are being scrapped – two factors that will drive up costs as demand increases.

Buying criteria are changing: operators now place greater emphasis on pricing, risk sharing and purchasing integrated solutions, while focusing on obtaining a lower cost per barrel (bbl) as opposed to lower cost per category.

Structural changes are needed: OFS companies must take drastic measures to significantly reduce costs in order to compete on price, or transform their value propositions.

OFS companies must transform their value propositions period.

Implement alternative commercial models: outcome-oriented pricing models that share risk across the value chain will drive performance improvements. EY has developed several models to help OFS companies better compete in the new environment. Other levers for developing a commercial model include investing with operators by taking equity stakes through services performed, or shifting from capital expenditure (capex)-based pricing models to those based on operating expenses (opex). Taking these steps will align interests across the value chain, ensure that OFS companies' offerings are in line with their customers' changing buying criteria and drive performance improvement.

Transform offerings: offering standardized and modular solutions will drastically bring down price, which is now significantly more important than customization when it comes time for operators to make purchasing decisions. In addition, offering a one-stop shop or integrated solutions will reduce the number of interfaces for the client and lead to other integration benefits.

Change the model: OFS companies will need to transform their commercial models and leverage digital enablers to become more client-centric, develop commercial and technical capabilities, and align their governance models with the desired expectations.

EY models will be particularly successful in certain regions and plays, which meet a set of criteria

Criteria for defining success: the models will be successful in regions with certain characteristics.

▶ **Value chain characteristics:** our models and approaches may be successful in regions where the supply chain is either highly competent and developed or just the opposite. In addition, regions with a large number of Tier Two companies, private

equity (PE) ownership and many national oil companies (NOCs) will be optimal for our approaches. A well-established and developed supply chain, or an underdeveloped supply chain, and a history of innovation and collaboration will also increase the attractiveness of those regions and plays.

▶ **Risk profile:** our models may be successful in plays and regions at opposite ends of the spectrum. This requires a high or very low degree of regulatory or political risk, and extremely short- or very long-term horizons.

▶ **Financial feasibility:** regions and plays with access to capital and attractive economics will be avenues for OFS companies to take on more risk and try such approaches.

Successful in certain plays: the criteria will enable the models to be successful in the following plays.

▶ **North Sea:** operators and OFS companies are open to innovation and collaboration. This is due to the deep trust across the value chain. This has already led to the establishment of alliances and risk and reward models.

▶ **US shale:** PE ownership, high number of Tier Two companies, which require capital for growth, attractive economics, a short go-to-market cycle and a developed supply chain makes risk and reward arrangements and turnkey solutions an attractive proposition.

▶ **Gulf of Mexico:** the competent supply chain, proximity to the refineries on the Gulf coast, combined with innovative commercial constructs and financing solutions could drive viability for a play, which is on the cusp of being economically feasible

▶ **Canadian conventional:** the short go-to-market cycle, limited volumes and low break-even point, make this play viable for tier 2 operators, who looking to pursue growth, but are capital constrained, making alternative financing solutions and innovative commercial models a compelling value proposition.

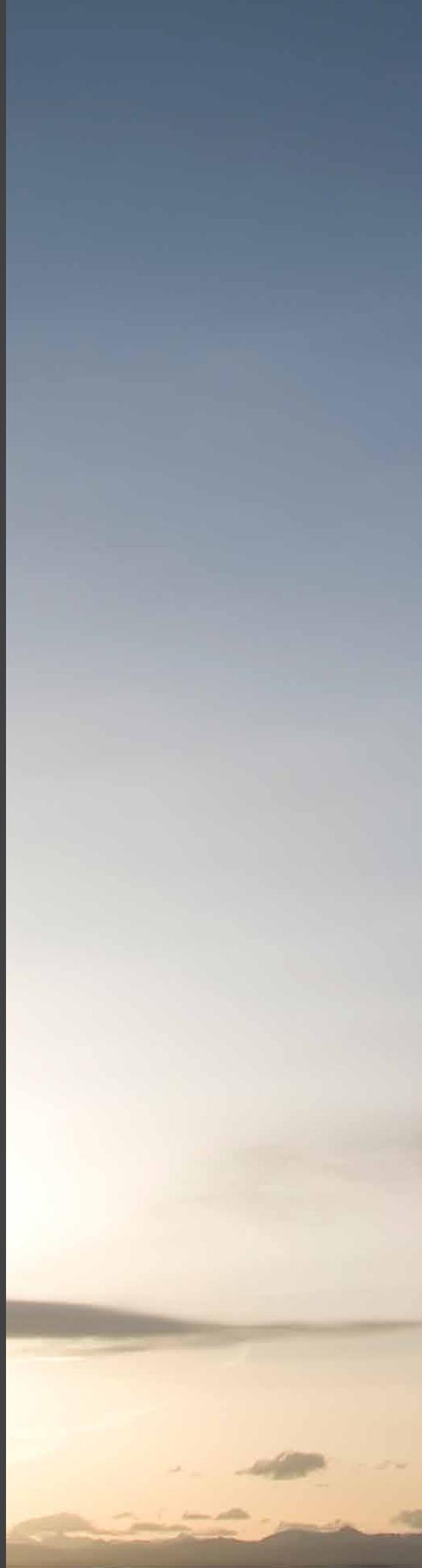
▶ **Vaca Muerta - Argentina:** the need for building infrastructure and the supply chain, provides opportunities for OFS companies to leverage their capabilities developed from US shale in order to establish long-term partnerships and offer turnkey solutions.

▶ **Middle East:** delivering large-scale turnkey solutions is viable due to the high number of NOCs. Mature NOCs are open to pay for cost savings and convenience, while immature NOCs will pay for acquiring capabilities.

▶ **Emerging markets:** partnering to fill capability gaps, investing in infrastructure and the supply chain, and playing a role in country development will drive the strategic importance of OFS companies, but must have a long term horizon, and provide large scale solutions in order to compensate for the scale of investment and risk.

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Introduction

Operators have responded to the most recent decline in oil prices by taking measures to reduce their break-even points. While successful, many of these measures can be classified as short-term and cyclical initiatives, such as downsizing and lowering unit costs, and are only possible because of the supply-and-demand imbalance. This has greatly affected OFS companies, as illustrated by the significant decline in margins.

In addition, operators' buying criteria have changed. They now place greater emphasis on standardization, price, risk sharing, performance-based contracts and integrated solutions. To address the significant demand-supply gap and operators' changing buying criteria, OFS companies must undergo structural change by offering their customers the most economical solution or transforming their value propositions. We believe the latter option is more viable, because most OFS companies have already undertaken cost-reduction initiatives. Structural change can take the form of alternative commercial models based on investing with customers, a shift from capex- to opex-based

pricing models or the offering of performance-based contracts. Transforming existing offerings by providing integrated solutions or a one-stop shop, and offering standardized or modular solutions to reduce cost, will also serve as a lever for developing OFS companies' value propositions.

Some companies have already undertaken a few of these measures, but none of them have embraced these measures in totality. Bringing about structural change cannot be achieved through a plug-and-play approach – it will require transforming the operating model and developing a set of capabilities to ensure commercialization and profitability. It is also important to note that this approach is not a one-size-fits-all solution.



Structural change is an imperative.

In an era of high oil prices, costs and risk considerations were a lower priority than bringing oil to the market. This encouraged an increase in upstream project complexity, resulting in a disproportionate rise in risks that the operators owned and the service companies controlled. The prolonged downturn exposed the vulnerability of such practices for project sanctioning and contractor engagement strategies. Operators have addressed this by reallocating risks and focusing on cost control and productivity optimization. As a result, OFS companies are under tremendous pressure to respond to the growing need for structural cost reduction and changes in their customers' buying criteria.

cost savings from structural changes. As operators have not taken the necessary structural measures to reduce cost, OFS companies must consider innovative strategies, business models and measures for cost reduction and performance improvement to ensure that the oil and gas industry remains attractive and that alternative energy sources do not substitute oil.

Pursuing sustainable cost reduction

As stated above and illustrated in the charts below (using US shale and an offshore project as examples), there have been minimal



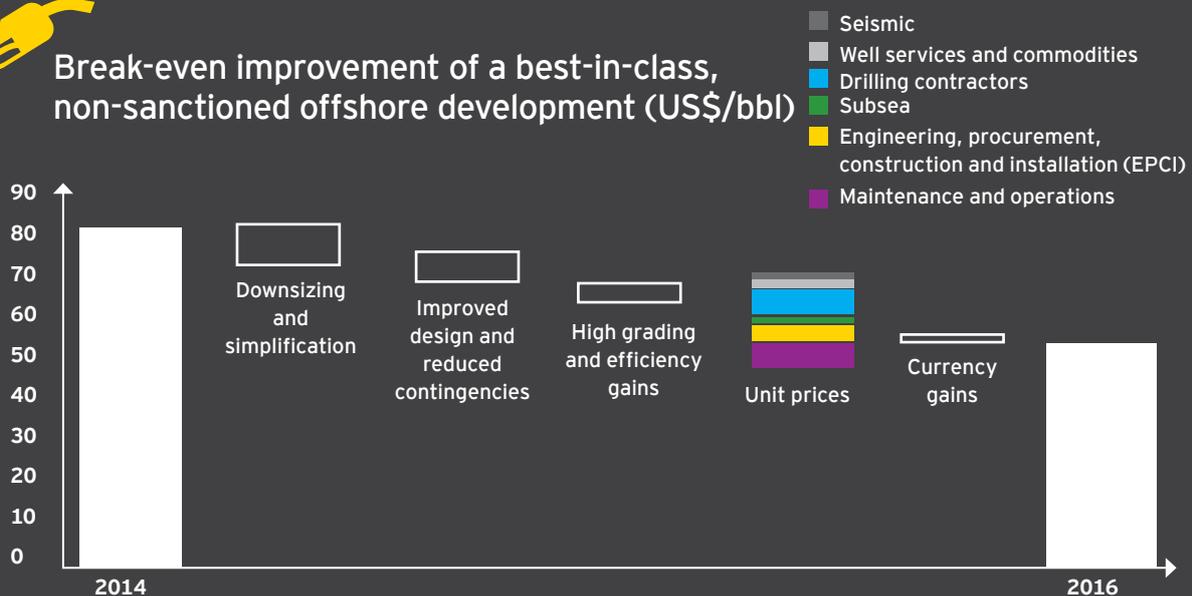
US shale wellhead break-even decline during 2014-16 (US\$/bbl*)



Source: Morgan Stanley via Thomson One / * Depicts wellhead break-even for major US shale plays



Break-even improvement of a best-in-class, non-sanctioned offshore development (US\$/bbl)

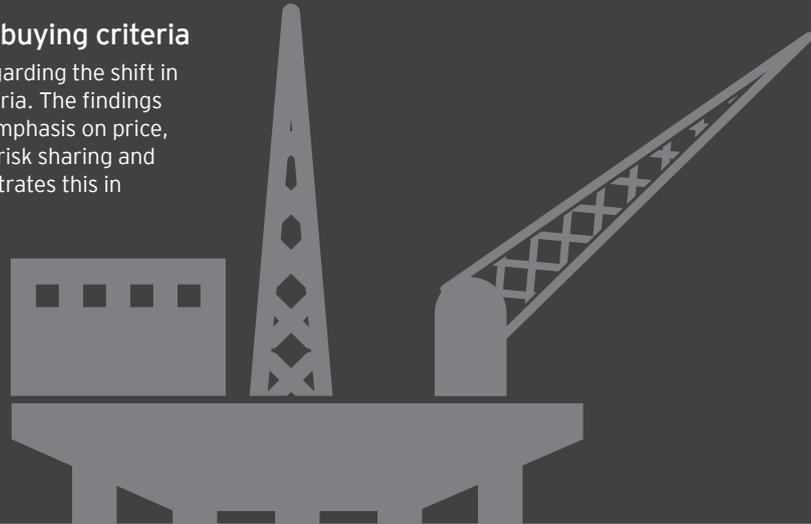


Source: Rystad Energy



Catering to changing customer buying criteria

We interviewed oil and gas executives regarding the shift in the key elements within their buying criteria. The findings illustrated that operators place greater emphasis on price, alternative commercial models based on risk sharing and integrated services. The chart below illustrates this in further detail.



Cost reduction



“The question is not about making things cheaper – but in value ... costs are just one part of value but not everything.”
 “Can they do the same job, cheaper and more efficiently?”

Commercial orientation

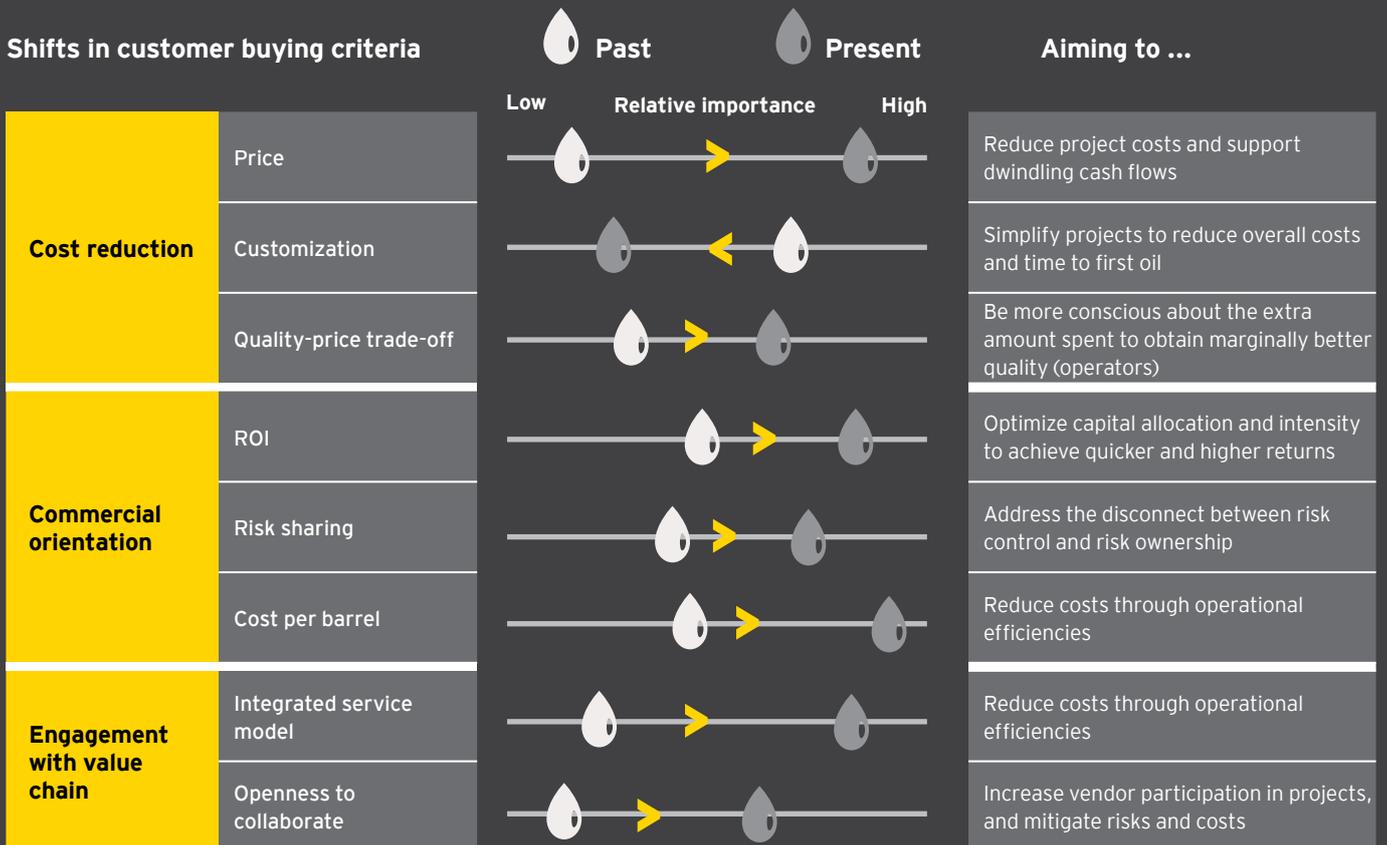


“It would be interesting to see greater embedding of performance incentives.”
 “The future of the industry will include a greater incidence of risk-sharing.”

Engagement with value chain



“Integration is interesting if it results in more or the same for less.”
 “We are interested in a construct in which the OFS takes a material position.”



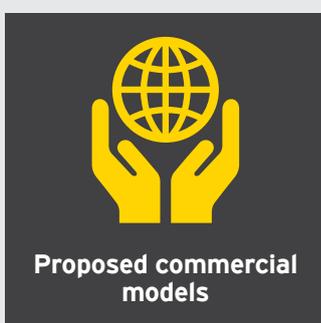


The value proposition is at the crux of transformation.

OFS companies must transform their value propositions if they are to bring about structural change and align their offerings with the changing buying criteria. This will be possible through commercial innovation and transformation of existing offerings. In terms of commercial innovation, this can mean investing with the customers, shifting toward opex-based pricing models and focusing on outcomes. In addition, it will require providing a one-stop shop and offering more integrated, standardized and modular solutions. This will involve a change in how OFS companies and operators work, and success will be based on the ability to shift from serving as solution providers to business partners.

Certain companies have undertaken some initiatives to transform their value propositions, but widespread adoption is limited. In addition, these initiatives have been implemented in silos rather than across the organization as a whole. Often, companies have not aligned their operating models with the significant structural change they have undertaken to move toward the new innovative models. The section below highlights these models and examples of implementation.

Innovative commercial models



Invest with the customer

Take quasi equity positions

- ▶ Deploy capital in the project in the form of products, services, technologies and finances
- ▶ OFS companies' returns are linked to the project's success in the form of equity profit share or hydrocarbon share

- ▶ **Lowers development risk** for the customer, as the OFS company absorbs greater risk
- ▶ **Improves project's sanctioning attractiveness** because of lower risk and reduction in customer's initial capital outlay
- ▶ **Enables customer to retain asset ownership** (in case of nonworking interest of the OFS company)
- ▶ **Accelerates learning** by aligning interests and ensuring that operators and suppliers collectively improve performance

Risk aversion has led OFS companies to approach this model with caution.

Example: one of the largest OFS companies has developed and co-managed customer assets under long-term commercial agreements by investing capital in kind and/or acquiring minority stakes. The company receives compensation in the form of the value of production. It mitigates risk by incorporating certain clauses in the agreements, such as guaranteed project return, payment assurance, and being an exclusive service supplier.

Impact: in 2016, the business model accounted for 5% of the company's revenues and generated a return on capital that is around 700 bps higher than the rest of its business during 2011 to 2016.

Opex-based pricing models

Leasing or renting

- ▶ Rent out an asset for a specified time frame while being responsible for asset-related costs and performance

- ▶ **Reduces up-front capital investment** by converting the customer's capex outlay to opex
- ▶ **Lowers customer's operating expenses**, as they do not pay for downtime
- ▶ **Improves performance on ROI ratios** such as return on capital employed (ROCE) and return on assets (ROA)
- ▶ **Incentivizes the OFS company** to improve performance

Example: an original equipment manufacturer (OEM) bought back blowout preventers (BOPs) from a contract drilling company and leased them back to the driller. Under the arrangement, the OEM's compensation was linked to BOP uptime.

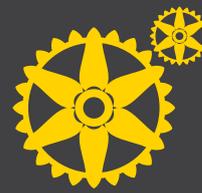
Expected impact: the OEM was incentivized to reduce the frequency and duration of BOP downtime, which helped reduce operational expenditures. Per the company, BOP repair and maintenance cost an oil company more than US\$1 million per day in lost productivity and are among the largest causes of nonproductive time (NPT) in the offshore drilling industry.



Proposed commercial models



Customer benefits



Case examples

Outcome-based models

Payments linked to performance

- ▶ Provide products and services with payment linked to performance metrics such as equipment uptime and production

- ▶ **Reduces upfront costs** for customers
- ▶ Partly **transfers project risks** to the OFS company and incentivizes it to improve performance
- ▶ **Reduces hidden costs and time**, as performance, not adherence to the service-level agreements (SLAs), is the sole focus
- ▶ **Improves performance**

Example 1: a leading contract drilling company has been collaborating with OEMs to improve equipment reliability on its rigs. Recently, it signed a performance-based service agreement with an OEM for condition-based monitoring and maintenance services on pressure control equipment on its rigs over the next 10 to 12 years.

Impact: between 2011 and 2015, similar contracts enabled the driller to achieve a 75% reduction in BOP-related downtime and limit NPT to below 2%, thereby further improving productivity and lowering operating costs.

Example 2: a leading contract drilling company has several floaters under performance-based contracts that offer a bonus incentive opportunity in addition to the base day rate.

Impact: a similar contract has helped one of its customers reduce drilling time by around seven days and well costs by more than US\$3.7 million. As a result, the company received a performance bonus of approximately 28% of the day rate.



Transforming offerings



Integrated solutions

Unified approach to project execution

- ▶ Provide multiple services through a single contracting structure that simplifies the procurement processes and reduces the number of supply chain interfaces for customers
- ▶ Life-of-field solutions

- ▶ **Improved project coordination** through greater alignment between OFS companies and operators around the overall project objective
- ▶ **Better project design**, as the OFS company gains a greater understanding of the wider development concept and how the various components link together
- ▶ **Improvement in long-term economics**, as improved project coordination and design positively influence the project's overall performance
- ▶ **Greater accountability and faster response times** due to a lower number of stakeholders or suppliers
- ▶ **Reduced downtime** – Reduced downtime currently estimated at 30% of nonintegrated service contracts, according to a company

As OFS companies acquire skills across the value chain through collaborations, alliances and M&As, operators are more open to awarding integrated contracts.

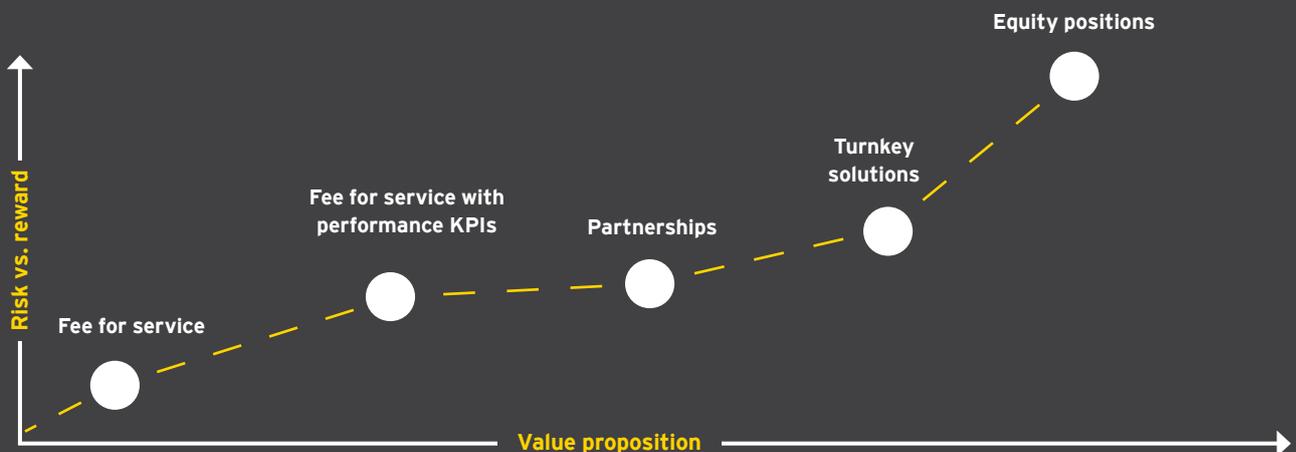
Example 1: an OFS company was awarded integrated front-end engineering design (FEED) and engineering, procurement, construction and installation (EPCI) contracts for an offshore project in Norway.

Impact: this contributed to an estimated 50% reduction in capex and a 28% increase in recoverable reserves.

Example 2: one of the largest OFS companies adopted the integrated operations approach for a field in Southeast Asia that was estimated to become uneconomic by 2017.

Impact: this approach contributed to a threefold increase in production, 70% gain in efficiency, 9-million-barrel increase in reserves and extension of the field's life by 18 years.

Variance in risk and reward relative to value proposition

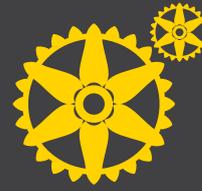




Proposed offerings



Customer benefits



Case examples

Standardized and modular solutions

Reducing redundancies

- ▶ Collaborate with customers to standardize specifications for equipment and packages, and replicate previous designs and experiences

- ▶ Reduce project costs **through standardization by 10%-20%**, according to Wood Mackenzie
- ▶ **Streamlines decision-making** by ensuring certainty of design and scheduling, expediting order placement, etc.
- ▶ **Optimizes and scales up supply chain** by allowing greater cohesiveness between the contractors and project team
- ▶ **Fosters greater cross-functional integration** and an information-sharing culture
- ▶ **Improves overall sanctioning economics** by accelerating time to sanction and lowering capital requirements

Example 1: a US-based independent replicated the facility design from one of its fields to another.

Impact: this helped reduce man-hours for pre-FEED and FEED phases by more than 60% and cycle time for topsides equipment modules by 50%, thereby accelerating time to first oil and achieving significant cost savings.

Example 2: an oil and gas company adopted a standard subsea template for its project in the North Sea.

Impact: this partly reduced project cost by around 20% and helped bring the field into production a few months ahead of schedule.

Example 3: an equipment manufacturer designed liquefaction modules, each of which comprised a single liquefaction process. The module is suitable for both compact and multi-train configurations.

Expected impact: the module is expected to reduce installation time by 50% and lower the number of field connections by 70%.

The combination of integrated solutions and outcome-based pricing models can significantly strengthen the value proposition and increase the earnings or profitability potential, relative to the increase in risk. This means the upside associated with implementing these models is significantly higher than the risk associated with cost overruns.

This is due to:

Aligned interests and increased transparency and trust across the value chain: the key suppliers and operator are working toward the same goal while managing costs. This collaboration helps reduce the risk associated with cost overruns and provides incentives and a platform for improving performance.

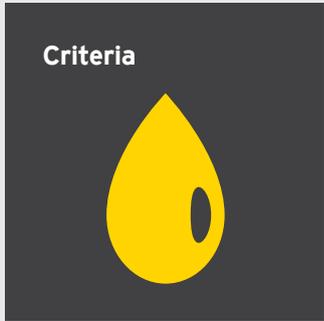
Enhanced ability of the value chain to control outcomes: collaborating and partnering to develop a solution or conduct an activity while having aligned interests will provide the players the ability, relationships and access to communication interfaces to influence the performance or behavior of other suppliers across the value chain.

Compelling value proposition for operators: offering outcome-based contracts and integrated services will reduce transaction cost for operators, limit the number of communication interfaces, reduce commercial and contractual complexity and deliver improved performance. Such a substantial increase in the value proposition will either increase the probability of winning contracts, or enable OFS companies to charge a higher price.

Fit for purpose in certain regions and plays

The models proposed above will not be successful in all regions and plays, and OFS companies must therefore be careful in selecting their target markets. The key selection criteria listed below are based upon value chain characteristics, risk profile and financial feasibility. Using these criteria as a guide, we have identified regions and plays where these models may be successful (see map).

Criteria	Description
<p>Supply chain competence</p> <p>Characteristics of E&P companies</p> <p>History of collaboration</p> <p>History of innovation</p>	<div style="text-align: right; margin-bottom: 10px;">  </div> <div style="text-align: center; margin-bottom: 10px;">  </div> <div style="background-color: yellow; text-align: center; padding: 2px; margin-bottom: 10px;"> Value chain characteristics </div> <p><i>Our proposed models are most likely to be successful on opposite ends of the supply chain competence spectrum:</i></p> <p>Competent and developed supply chain. A competent supply chain allows OFS companies and exploration and production (E&P) companies to be in control of their performance and the outcome, making risk- and production-sharing models feasible.</p> <p>Complex markets with an underdeveloped supply chain. Providing solutions across the supply chain in a complex market could fill the capability gap and serve as a reason for OFS companies to provide not only turnkey solutions, but also performance-based pricing models.</p> <p><i>Companies with the following characteristics will be most attractive:</i></p> <p>Tier Two companies with upcoming field development projects. The crash of oil prices led super majors to sell their assets to Tier Two E&P companies. Exploration and development costs are high for these assets, but many Tier Two companies have experienced challenging financial health and limited access to capital. Joint risk/reward and funding opportunities would help address these challenges.</p> <p>Private equity (PE) ownership: E&P companies with significant PE ownership place greater emphasis on life extension and pure financial return KPIs such as return on capital employed (ROCE). This opens the opportunity for partnering, offering larger packages of service, and sharing risk and value plays.</p> <p>National oil companies (NOCs). Mature NOCs are vertically integrated, have capabilities across the value chain and are typically willing to pay a premium for convenience. Conversely, immature NOCs typically lack certain capabilities across the value chain, making them more likely to pay a premium for the missing capabilities and acquire full-scale packages.</p> <p>A history of collaboration through either industry clusters or joint efforts in product or service development ensures not only trust and transparency, but also strong networks across the industry. This will serve as a key driver for establishing new partnerships.</p> <p>Certain plays and regions have a history of innovating and being at the forefront of technological enhancement. Our proposed models are more likely to be adopted in such plays because the operators are open to change.</p>



Asset characteristics

Risk

As with the supply chain positioning factor highlighted earlier, being at either of the opposite ends of the risk profile spectrum is most attractive for OFS companies:

Short-term plays. OFS companies are likely to prefer plays that allow them to quickly go to market and have a short-term developmental outlook. Challenging markets create pressure for short sales cycles, as companies have limited cash and want to reduce uncertainty and risk, which also enables them to be flexible. Investors are also interested in plays with shorter-term outlooks.

Ultra-long-term plays in complex regions. Regions with a long-term outlook are attractive for OFS companies because there is room for a large company to develop a long-term partnership while building infrastructure, society and supply chains. However, this also presents greater risks.

Limited reserve complexity. Low-risk plays, such as shales are more likely to be preferred than higher-risk plays, such as deepwater projects. However, the superior technical capabilities of certain OFS companies can make higher-risk projects more attractive.

Complexity and political and regulatory stability

As above, projects on opposite ends of the political and regulatory spectrum are likely to drive success, per our proposed models.

Stable political and regulatory environment. Most companies think long-term when entering partnerships and making investments. Companies are therefore more likely to invest in plays where the overall outlook is stable and where good infrastructure and other inputs are guaranteed.

Complex regions with limited infrastructure. The need to build infrastructure enables OFS companies to increase their strategic importance across E&P and country development. Their role could entail infrastructure, societal and people development, and use of local content tailored to regions. Such plays provide an opportunity for a conglomerate of OFS companies to offer full-scale packages.

Financial feasibility

Access to capital

Access to capital is important because OFS companies need the financial strength and balance sheet to enter into alternative financing models. Capital availability depends on investor and lender sentiment, which varies across plays.

Low break-even point

Plays with a low break-even point are economically the most feasible because they are less likely to be canceled or deferred, while the profitability is high. Hence, such plays present limited risk for OFS companies.

Where to play



Canadian conventionals

- ▶ Assets have low volumes, are easy to develop and can be taken to market quickly
- ▶ High number of Tier Two companies, many of which are capital-constrained
- ▶ Tier Two companies can achieve feasible break-even points due to low overhead cost and agility



US Shale

- ▶ Significant PE interest and ownership
- ▶ High number of Tier Two companies, which require capital to pursue growth agenda
- ▶ Attractive economics and a short go-to-market cycle
- ▶ Strong rivalry due to low entry barriers and a fragmented supply chain



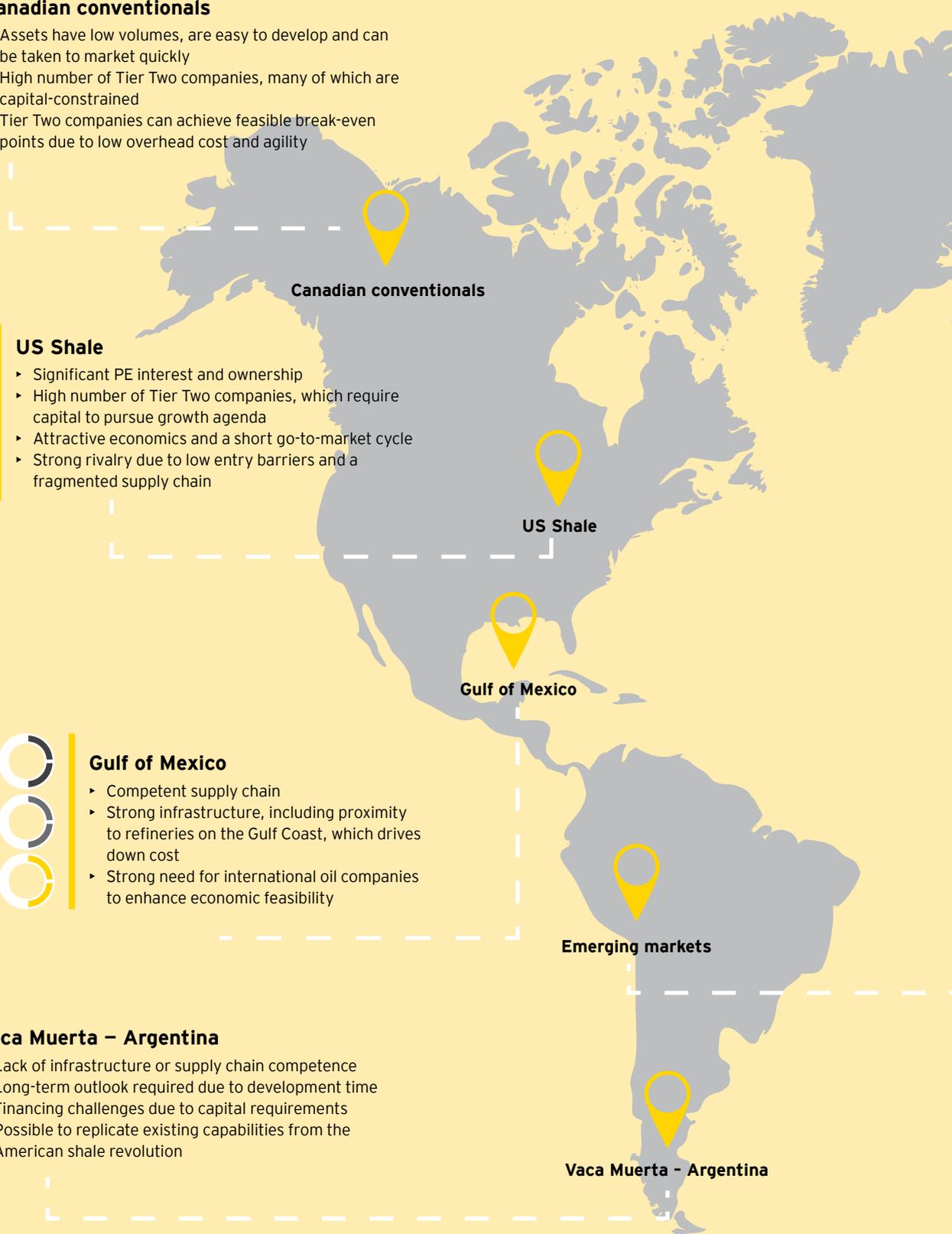
Gulf of Mexico

- ▶ Competent supply chain
- ▶ Strong infrastructure, including proximity to refineries on the Gulf Coast, which drives down cost
- ▶ Strong need for international oil companies to enhance economic feasibility



Vaca Muerta – Argentina

- ▶ Lack of infrastructure or supply chain competence
- ▶ Long-term outlook required due to development time
- ▶ Financing challenges due to capital requirements
- ▶ Possible to replicate existing capabilities from the American shale revolution





North Sea

- ▶ Increasing ownership of PE-backed E&P companies
- ▶ History of collaboration between E&P and OFS companies, and across service companies
- ▶ Establishment of several partnerships and alliances
- ▶ Critical mass of OFS companies and a competent supply chain

North Sea



Middle East

- ▶ High number of both mature and immature NOCs
- ▶ Market-leading economics and strong access to capital
- ▶ Possibility to have a long- and short-term outlook due to low asset complexity

Middle East



Emerging markets



Emerging markets

- ▶ Limited infrastructure and supply chain competence
- ▶ Strong concentration of mature and immature NOCs
- ▶ Complex political environment and expectations to contribute toward societal or regional development, and adhering to local content requirements
- ▶ Access to Chinese capital to unlock new developments



Value chain characteristics



Risk profile



Financial feasibility

Conclusions and recommendations

Delivering structural changes in oilfield services will require OFS companies and operators to transform their operating models. This will require a number of changes to the commercial model and the use of technology, which will trigger organizational changes. Key elements for companies to consider to make this transformation a success are listed below.

Commercial:

Collaborate to create value propositions for overcoming development challenges: deploying outcome-based pricing models while partnering across the value chain will require operators and suppliers to work more closely together, collaborate and co-develop in some cases, and engage in long-term relationships. This will require knowledge and data sharing; strong coordination; and relationships across organizations that are built on trust, transparency and openness.

Establish partnerships: OFS companies will need to maximize their control over the project outcomes in order to meet the contracted performance targets, especially for quasi equity positions. Offering an integrated solution will also be a part of their value propositions, which will come through commercial partnerships or M&A. Either option requires an analysis of their portfolios, the competitive landscape and identification of gaps that need to be filled in order to win in the market.

Align commercial strategy and sales operating model with the new reality: selling an innovative solution based on long-term partnerships will require the sales and commercial teams to develop the skill sets to identify, structure, price, sell and execute sophisticated and innovative commercial deals. Sales leaders will need to shift from being product sellers to demand creators, meaning they will need to identify opportunities before the operators have. This will require a significant shift in the capabilities, governance, processes, tools and the sales operating model.

Selling integrated solutions or outcome-based pricing will be challenging, as this is not what operators are used to purchasing and it contradicts the current incentive structure within procurement. Category managers are measured on keeping the lowest cost for their category and do not have the incentive to interact with other departments. Therefore, making the shift from realizing the lowest cost per category toward obtaining the lowest cost per barrel will be challenging. This will require the sales team to develop alternative sales approaches, sell through pilots or obtain leadership buy-in early on in the process.

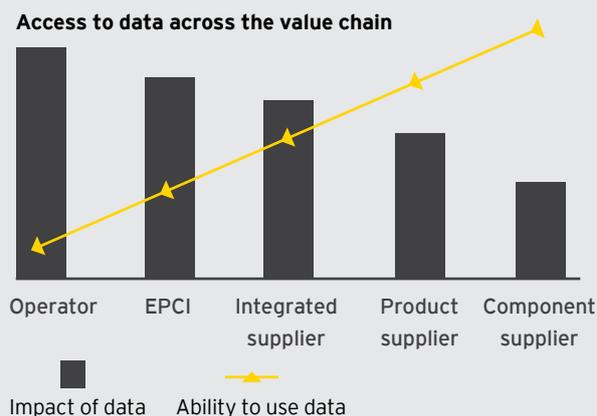
Strengthen customer intimacy: OFS companies will need to become more client-centric. This will require significant knowledge of their clients' businesses, capabilities, personnel and challenges, which will enable them to sell through alternative commercial models or develop partnerships. Operators will also have to be open to developing such relationships and connecting with their strategic suppliers on various levels. These factors will build trust and enhance collaboration and knowledge sharing, all of which will drive the success of such models.

Digital:

Leverage digital as a value driver: Translating the vast quantities of available data into insights can enable performance improvement. This includes conducting predictive maintenance to prevent breakdowns and enhance uptime on equipment. Detecting and analyzing performance variances or anomalies can help deliver actionable, data-driven insights. This will be important for OFS companies, as improving performance could directly impact their profitability. Leveraging data will also enable OFS companies to understand how their solutions are used, which will drive design improvements that lead to better solutions at a lower cost. Other digital elements, such as automation, could also drive performance improvement.

Share data across the value chain: leveraging data across the value chain will help improve performance, as illustrated by several use cases mostly notably associated with predictive maintenance and production enhancement. Unfortunately, the benefits associated with combining data across a number of sources, equipment and service categories have not been achieved yet because of a data sharing.

The figure below shows how the impact of leveraging data increases across the value chain and how it can drive performance by getting the right data into the hands of the teams directly. In order for outcome-based pricing models and integrated solutions to be successful, sharing data and using platforms to enable data sharing and collaboration are critical, as the impact and synergies associated with leveraging the data in totality are significant.



Organizational:

Develop risk management capabilities: these models enable OFS companies to expand their scope, creating bespoke pricing options, and provide incentives for attaining certain KPIs while also mitigating risks of failure. This introduces a new dimension to risk management. Unless this is managed effectively, OFS companies will make uneducated decisions and run the risk of losing not only money but their reputations and clients as well. Developing capabilities to measure and manage the new risks and develop mitigation strategies is essential to ensuring success.

Align governance model: aligning roles and responsibilities within the organization, while aligning interests with operators, requires strong contractual agreements and focus on performance management. Therefore, OFS companies and operators must work together to align KPIs across various stakeholders.

Drive cultural change: changing the industry from an engineering-led mindset of "solve every problem as it is presented" to a manufacturing- and data-science-led approach will take time. Operators will have to place greater trust in data and systems while balancing offshore and onshore decision-making. OFS companies will have to rethink how they engage with customers and move away from a product sales mindset to embrace an integration of insight. Such thinking is often blocked by sales personnel and agents.

The changes proposed above are significant and cannot be underestimated. They will not only change how companies work together, but also how individuals operate, are managed and interact. Because of the natural resistance to change, this disruption will likely take many years to transform the industry. However, we are now seeing significant structural changes in the industry, and a pick-up in the number of pilot projects, which suggests we are at the cusp of structural change.

How can EY help

Our closely linked advisory, transactions and tax service teams, coupled with our global team of more than 10,000 oil and gas professionals, are well equipped to provide independent, whole-life support and advice to our oil and gas clients during this time of fundamental change. We provide services within the following areas:

Strategy

Market analysis and strategy development
Business model innovation
Commercial strategy
Digital transformation

Performance improvement

Operating model transformation
Organizational design
Sales excellence
Operational excellence
Supply chain transformation

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