DIVERSIFICATION IN ACTION

How oilfield equipment and services businesses can reinvent themselves
Oil prices have bounced back from historic lows to $75 a barrel in a year, fueled by the hope of an impending economic recovery in the post-pandemic world. However, even with the near-term market optimism, there is increasing certainty among the oilfield equipment and services (OFES) leaders that the medium- to long-term demand and pricing premium for their products is structurally declining.
In this environment, it’s tempting to believe that sustainable growth for the sector is off the table. We disagree. Accenture believes that hydrocarbons will continue to play an important role in the energy system of the future. Moreover, within that future energy system, there will be multiple opportunities for OFES companies to reclaim their growth potential beyond opportunities around measuring and mitigating today’s emissions. In a recent joint study from the Energy Workforce & Technology Council and Accenture,¹ the majority of respondents believed that environmental, social, and governance (ESG) performance will help them gain a competitive advantage and access new capital and customers. But seizing those opportunities requires bold thinking—and bolder actions. It requires ambitious strategies, new business models and a redefined purpose. The most pioneering CEOs we work with are spending more than 50% of their time focused on growth opportunities outside of what they would have described as their addressable markets just three years ago.

This sort of reinvention is daunting, to be sure. But it’s not impossible—especially for an industry that brings to the table the expertise, capabilities and technologies upon which the energy system of tomorrow will depend.
An industry under pressure

The current slow-growth environment in which OFES companies operate has been years in the making.

The global movement to decelerate hydrocarbon extraction has steadily grown and now—with more and more companies and countries signing on to the Paris Agreement and national sustainable development goals—has become unstoppable. As individuals and industries in developed countries scale back on fossil fuel consumption, demand growth has slowed—a deceleration exacerbated by the global pandemic.
Investors, for their part, have seen the “writing on the well.” In an environment characterized by muted fossil fuel demand and growing calls for decarbonization across the energy chain, investors have pulled back their funding for capital projects in the industry. Even the most optimistic forecasts do not see capital expenditures returning to 2019 levels until at least the middle of this decade (Figure 1). This does not bode well for OFES companies. The resilience of most of their business models, as currently structured, depends on a steady infusion of capital into the industry.

Figure 1 | The correlation of oil and gas global capital expenditures to oil price

Oil and gas global capital expenditure correlation to oil price
2013-2024 (US$ billions)

Compounding the structural threat posed by decelerating demand is the impact of digital disruption. Exploration and production (E&P) operators have in many cases sidelined OFES partners and accelerated their investments in home-grown digital solutions. Many of these technical advances are driving operational efficiencies in the extraction of hydrocarbons, which further reduces the need for the external support that OFES companies typically provide.
In this environment, the sector’s traditional “profitability enhancement playbook” won’t work. Reducing costs by renegotiating contracts with suppliers, slashing selling, general and administrative (SG&A) expenses, or even fundamentally redesigning the way services get delivered—tactics that may have worked during cyclical disruptions in the past—won’t offset the systemic challenges now at play. In short, even if oil prices go up in the near-term, OFES valuations will be capped, and the “closed loop” capital structure of the sector will remain intact.
It’s not all bad news

Despite the sector’s structural decline, there are reasons for optimism.

Accenture believes there is untapped potential for OFES companies to attract investor interest in new, non-hydrocarbon-intensive areas that support the energy transition agenda. For example, there are significant investments being made in “emerging energy” solutions—ranging from electric vehicles and smart grid infrastructure to electrified heat pumps (Figure 2). There’s no reason OFES companies can’t (or shouldn’t) claim a piece of the new energy investment pie.
Figure 2 | “Emerging energy” investment trends (US$ billion)

Note: Estimates for 2021 are based on expected growth in market size; *Compound annual growth rate (CAGR) for fusion energy is from 2018 to 2021.

Sources: Accenture analysis based on data from BloombergNEF, International Energy Agency (IEA), International Renewable Agency (IRENA), Cleantech and United Nations Environmental Programme (UNEP).
Reclaiming relevance through diversification

Pursuing these new opportunities will require today’s companies to diversify.

Rather than taking a defensive posture to salvage what they can from their traditional businesses, OFES must now “play offense” and branch out into new areas. We see companies pursuing five significant value pools, albeit at different levels of maturity (Figure 3).
Diversification in action

Figure 3 | Investment in revenue diversification by key OFES players

<table>
<thead>
<tr>
<th>Company</th>
<th>Clean the core</th>
<th>Extend natural gas value chain</th>
<th>Proven renewables</th>
<th>Energy transition bets</th>
<th>Non-energy products and services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company A</td>
<td>Material business established</td>
<td></td>
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<tr>
<td>Company B</td>
<td>Emergent investment</td>
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<tr>
<td>Company C</td>
<td>Material business established</td>
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<tr>
<td>Company D</td>
<td>Emergent investment</td>
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<tr>
<td>Company E</td>
<td>Material business established</td>
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<td>Company F</td>
<td>Emergent investment</td>
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<tr>
<td>Company G</td>
<td>Material business established</td>
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<td>Company H</td>
<td>No/limited investment</td>
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<tr>
<td>Company I</td>
<td>Material business established</td>
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<tr>
<td>Company J</td>
<td>Emergent investment</td>
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Source: Company finance reports and earnings calls; Accenture analysis.

Key takeaways

- Natural gas value chain seeing largest material investment amongst diversification themes, focus to date on liquified natural gas
- Carbon capture is the most saturated market for those investing in “clean the core”
- OFES players targeting both operations and maintenance (asset condition-based monitoring) and capital expenditure (construction manufacturing and installation) segments of “proven renewables” markets
- OFES players have yet to convert venture-type investments in emerging “energy transition bets” and “non-energy products and services” markets into material revenue
Cleaner oil and gas operations. As the energy transition accelerates, oil and gas operators are more keenly focused on decarbonizing operations across the value chain. They are “cleaning the core” of their businesses by, for example, taking steps to manage methane emissions, employ carbon capture, utilization and storage (CCUS) solutions, develop “clean” refining and chemical-production processes or electrify their onsite equipment. OFES companies can provide valuable insights and skills in each of these areas, as well as others.

The extended natural gas value chain. OFES companies can apply their expertise to, for example, assist in the production of liquified natural gas, ensure the integrity of gas transportation assets, or develop industrial and power generation gas applications.

Proven renewables. The shift to renewable power generation has accelerated in recent years and will only intensify in the future. Large, proven renewable energy solutions such as onshore and offshore wind, solar power, geothermal power and energy storage have tremendous long-term growth potential. OFES companies have (or can fairly easily adapt) the skills needed to support the industry’s expansion of these lucrative markets.

Unproven new energy transition bets. The energy transition is profoundly consequential—and complex. As more and more consumers, industries and nations move away from hydrocarbons, the demand for viable and sustainable alternatives will only grow. Today, the use of blue and green hydrogen, renewable ocean energy, next-generation batteries (and lithium-extraction solutions) and fusion technologies are all in early stages of development. While their successes and scale are not guaranteed, they represent potential high growth areas that OFES companies should not ignore.

Non-energy products and services. There’s no reason for OFES expertise to be confined to the oil and gas industry. We have worked with OFES companies to identify applications for their capabilities across mining, advanced manufacturing, diversified chemicals, construction, biotech and even space.
Diversification in action

While it is relatively easy to point to the theoretical opportunities available to OFES companies, executing on these strategies is a different and more challenging undertaking altogether.

The good news is that compared to their traditional oil and gas customer base, the OFES sector arguably has a greater set of transition opportunities into new products and markets.
First, OFES companies need to be able to fund the organic and inorganic investments required to build these new businesses. While the improving market for OFES should increase cashflow and enable some new investment, in reality most companies will require divestitures of their traditional businesses in order to make this pivot at scale.

As important as funding is the recognition that making this pivot will require significant changes to the culture, capabilities and organizational structure of OFES businesses. Five key changes must be driven from the top if a company is going to make the pivot successfully.

Reflect commitment in organization structure

OFES businesses need to be bold with the positioning of their diversification initiatives in terms of their organizational structure. The individuals leading these initiatives should not be positioned below the level of chief technology officer or within an existing business unit. Instead, they need to be elevated, in most cases reporting directly to the chief executive officer. Without this structure in place, the rest of the organization, investors and partners are unlikely to take these initiatives seriously. Our recent analysis of global OFES companies shows more than 75% have designated energy transition senior leadership positions.
More robust strategy and marketing functions

Historically, the strategy and marketing functions of OFES firms have been relatively small as compared to cross-industry industrial service providers. That’s because they only had to focus on one, very well-known customer: The “E&P operator.” However, as OFES companies diversify and learn how to win and sell in many new markets with many new customer segments, they will need more robust strategy and marketing teams to guide the business.

Embrace partnerships

Most of the pivots OFES businesses will undergo will be faster and more successful through partnerships that can augment the unique capabilities present within OFES companies today. Most other industries (especially technology-centric ones) have a much more formal strategy and focused organization around designing and developing their partner ecosystem than what exists in the OFES sector today.

Welcome new talent strategies

Similar to partnerships, OFES businesses will also need to embrace new strategies for how they acquire and develop talent. The most critical talent OFES companies acquire over the next decade will not come from formal training programs that enable engineers in the field to eventually take on managerial roles. Instead, they will come from the acquisition of startups or targeted experienced-hire campaigns, which recruit from talent pools and backgrounds very foreign to today’s OFES recruiting teams.

Culture of innovation

Without a doubt, OFES companies have been ingenious in their ability to drive technology breakthroughs within the oil and gas industry since the beginning of the oilfield. But fostering a culture of innovation that rewards colleagues for taking risks outside of the safe havens of the “traditional business” is a very different approach and not something many OFES companies have been successful at in the past.
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