A NEW WAY FORWARD FOR OILFIELD SERVICES
After one of the toughest and longest-lasting downturns in history, there are promising signs that the oil industry—at least in North America—is barreling back to growth.

But for oilfield services companies, the picture may not be all rosy. Changing supply curves, new competitors, and a now-constant state of market volatility requires them to focus on asset and workforce utilization as never before. Oilfield services companies that fail to improve their investment returns will find surviving the upturn as challenging as weathering the downturn.
DID SOMEONE SAY DISRUPTION?

New investment activity, a healthier balance between supply and demand, and stabilizing commodity prices indicate a rebound is under way in North America’s oil and gas industry. Unfortunately, oilfield services players aren’t yet benefiting from the upturn as much as one might expect. Why? We believe there are three main reasons:

**YESTERDAY’S OVER-INVESTMENT IS DRAINING RETURNS TODAY.**
When the market rebounded last time, many oilfield services (OFS) companies went on hiring and spending sprees. They added assets and jobs quickly to satisfy the growing demand for talent, equipment and services. But then came the downturn. The biggest OFS companies slashed their workforce by a third.¹ Capital investments declined by up to 70 percent.² And, as many OFS companies can attest, asset utilization declined significantly. Returns on those assets have plummeted (see Figure 1), impacting the ability of OFS companies to make new capital expenditures that might be warranted.

**FIGURE 1**
OVERINVESTMENT IN ASSETS DURING THE LAST UPTURN HAS COME BACK TO HAUNT OILFIELD SERVICES COMPANIES

![Asset and Income Chart]

![Return on Assets Chart]

Source: Accenture Strategy analysis: S&P Global Market Intelligence
THE ENVIRONMENT IS DIFFERENT. Thanks to the economics of shale production, the oil market is transitioning from long cycles of price fluctuation to shorter, more volatile cycles—with less upside. This has brought heavy focus on costs among operators. The OFS market is now just half the size it was three years ago (see Figure 2), and it is unlikely to reach the previous peak in the near term. The largest players must learn to live with a smaller portion of a smaller, more cost-focused market.

FIGURE 2
THE NEW REALITY IS CHARACTERIZED BY SMALLER MARKET SHARE IN A SMALLER MARKET

MARKET SIZE AND MARKET SHARE

Source: Accenture Strategy analysis; Spears & Associates

COMPETITION IS FIERCE. Private equity firms increasingly see OFS companies’ lack of discipline around asset utilization as an opportunity to step in and unlock value from equipment and workforces. But an even bigger threat comes from within the industry—namely, cost-conscious operators that weathered the downturn by building internal capabilities they would have traditionally counted on OFS companies to provide. These capabilities matured quickly and now give OFS companies a run for the money. Pioneer Natural Resources, for example, decided to manage completion design internally. Production from wells that utilize the company’s in-house designs is up 25 to 35 percent. Could OFS providers do any better?
RECLAIM YOUR RELEVANCE

Oilfield services companies in North America—and, soon, around the world—have no choice but to generate greater returns on their existing assets and investments. They can do that by focusing on four things:

**COST-COMPETITIVENESS.** Building the competitive agility that is now needed will require OFS companies to honestly assess their competitive potential. A long-term, 360-degree view of what success will look like in the years ahead will help them adjust their operating models and portfolios to create a differentiated and sustainable strategy for growth.

Equally important, a cost-containment mindset can help them understand the advantages they can gain from the products and services they deliver, the technologies they use, and the markets in which they focus. For example, the technology and regulatory requirements for operating in certain regions of the world may prove to be too costly. Similarly, it may no longer make sense for large companies to incur overhead charges for commoditized slickline services or coiled tubing services. Rather, companies may want to divest those services or product lines or form alliances with smaller players that specialize in certain product or service categories.

**WORKFORCE PRODUCTIVITY.** To make the most of their workforces, companies must first understand what “optimal” service delivery means for their customers and redesign processes to eliminate needless or redundant tasks. They will likely find that a different mix of jobs and roles will drive workforce productivity and efficiencies.

We believe oilfield services workforces can be optimized with just half of the incremental workers brought on board during the last rebound.

Achieving that goal will require greater discipline in hiring and talent development, greater use of flexible labor, and greater use of digital technologies to augment human skills, drive wellsite innovations, and help enable remote operations and maintenance.
**ASSET UTILIZATION, BALANCE AND RE-PRIORITIZATION.** In the short term, OFS companies should end the arms race they began in the last upturn by unlocking hidden value in their existing assets. This means assessing the profitability potential of various asset classes, identifying how technologies and capabilities align with each, and then investing in new solutions like maintenance analytics and dynamic scheduling to improve visibility into asset performance.

Over the long term, companies should rethink their go-to-market strategies and prioritize spending on those areas that will deliver high returns such as data interpretation and analysis. Other CapEx-intensive industries show it can be done. Refineries, for example, mitigated the risk of overbuilding by balancing investments in industrial assets with investments in new technologies and planning capabilities.

**DIGITAL DOMINANCE.** Integrated digital platforms, which enhance collaboration and fast-track innovation, and digital asset lifecycle management tools that boost decision-making and agility, hold particular potential for OFS companies looking to unlock value. Because such digitally enabled solutions are typically built using open standards, OFS companies can customize solutions to their liking.

To date, the focus has been on using digital technologies to drive efficiency gains in production-based services. But the opportunity to use digital to drive incremental production improvements is approaching its limit. To avoid digital erosion and to seize greater value from new technologies, OFS companies should create a holistic digital strategy designed to pursue opportunities in both production and recovery. They must promote a culture of aggressive digital experimentation. And they must adopt a venture capitalist’s mindset that recognizes the value of unconventional ideas and collaboration. Partnerships—particularly with digital start-ups—can help OFS companies create innovative products and services, and then extend these offerings to reach broader audiences and markets.
DIGITAL ASSET LIFE CYCLE MANAGEMENT

New digital technologies such as specialized sensors, when combined with data-driven insights, can transform asset management processes and unlock tens of billions of dollars in value. These savings can be reinvested in efforts to attract and develop talent for new, more strategic roles such as data scientists. Three types of digital solutions are poised to revolutionize the oilfield services industry in the next decade:

**AUTOMATION.** Robots, drones and tools to enable remote operations will facilitate asset inspections and real-time, data-driven decision-making. Drones and autonomous robots are expected to contribute to a 20 percent reduction in drilling and completion costs, a 25 percent reduction in inspection and maintenance costs, and a 20 percent reduction in overtime.

**ADVANCED ANALYTICS AND MODELING.** OFS companies can quickly and automatically produce models that can analyze bigger, more complex data and deliver faster, more accurate results. By building precise analytical models, companies have a better chance of identifying profitable opportunities and/or avoiding risks. Predictive maintenance applications, alone, can reduce maintenance costs by 20 percent.

**CONNECTED WORKER.** Mobility apps and wearable technologies give workers access to the right information at the right time, so they can make better decisions to enhance productivity and reduce costs. One major OFS company is outfitting its field employees with customized smart glasses to improve safety and productivity. The pilot solution provides oilfield workers with live gauge readings, safety checklists, and even step-by-step procedure videos, while also relaying real-time metrics about worker performance to the company’s management team.

Accenture Strategy research indicates that 54 percent of global business leaders prefer to be “fast followers” or take a “wait and see” attitude when it comes to adapting their business strategies in the face of digital disruption. Oilfield services companies don't have that luxury. After years of under-utilizing their assets and workforces, they need to take steps today to get back in the game in a profitable and highly productive way.
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NOTES

1. Accenture Strategy analysis.
2. Ibid.

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