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OIL & GAS
SECURE TRUST TO SECURE GROWTH

ACHIEVE COMPETITIVE AGILITY

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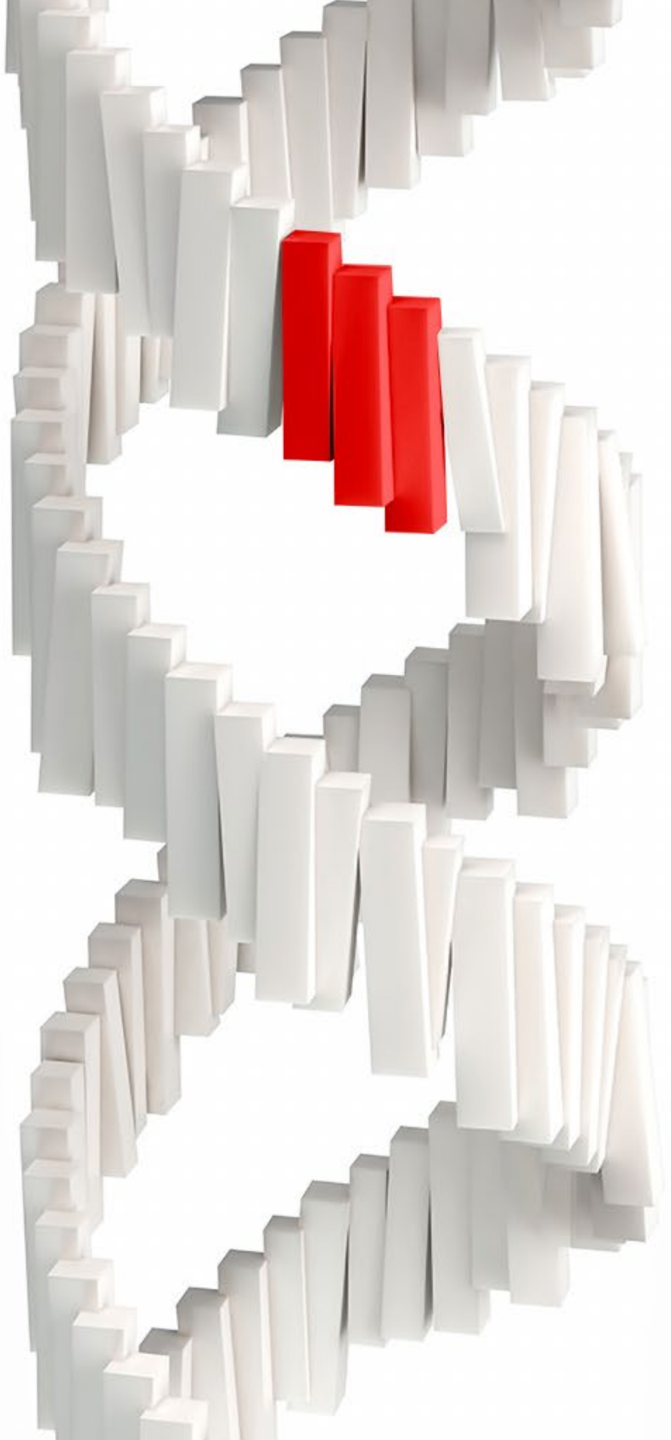
THE STATE OF PLAY

For decades, oil and gas companies have maintained their competitiveness through boom and bust cycles by focusing on two things: extracting hydrocarbons that people need and delivering returns that investors demand.

Amid declining returns and growing demand for cleaner energy and sustainable products, trust in this model is fading. Investors are scrutinizing the industry as never before. And they're not the only ones. Consumers, employees and suppliers are questioning whether traditional oil and gas companies can play a meaningful role in the energy transition.

This degradation of trust can be costly. On average, almost four percent of future revenue could be at risk, according to the most recent Accenture Strategy Competitive Agility Index, described in The Bottom Line on Trust.[1] For large national or integrated oil companies, that could amount to an average loss to future revenue of US$9 billion.[2]

Competitive agility is on the line. That's why regaining trust is so important. Future relevance depends on it.



A LICENSE TO GROW

The energy industry will need nearly $40 trillion in investment capital across the value chain by 2040. While at least half of that will go toward growing core operations, a significant share will need to be allocated to new business models and diverse growth opportunities.[3] Alternative energies, sustainable products, electrification, integrated services and cleaner, more efficient fossil fuel solutions... everything will be on the table.

Unfortunately, investors are increasingly sceptical not only of energy companies' willingness or ability to embrace business models that promote sustainability and positive social impact, but also their aptitude to adapt in the energy transition. Look at the number of institutional investors committing to divest trillions in assets from fossil fuel companies—an exponential jump from two years ago.[4] Or the investors pressuring traditional energy companies to be more sustainable and socially responsible. A handful of oil majors have responded to such pressure by setting carbon emissions targets – one going so far as linking executive pay to these targets.[5]

The coal industry illustrates what the potential financial consequences of investor distrust looks like. While coal consumption in 2040 is expected to be just a few percentage points below its projected 2025 peak, investments in and valuation of coal producers have cratered. Several lenders and underwriters have stopped issuing funding or insurance for new projects.[6] New capacity has plummeted by 95 percent since 2011. The market capitalization of the top four US producers has plunged by nearly 90 percent, from $45 billion to just $5 billion.[7]

To avoid a similar fate, oil and gas companies need to prove to investors that they can compete and grow in the years ahead. Some of the integrated majors are doing so by, for example, divesting non-core assets, shifting to less carbon-intensive portfolios, or expanding their alternative energy and power initiatives. For one company, such efforts are expected to produce $10 billion in savings by 2020.[8]

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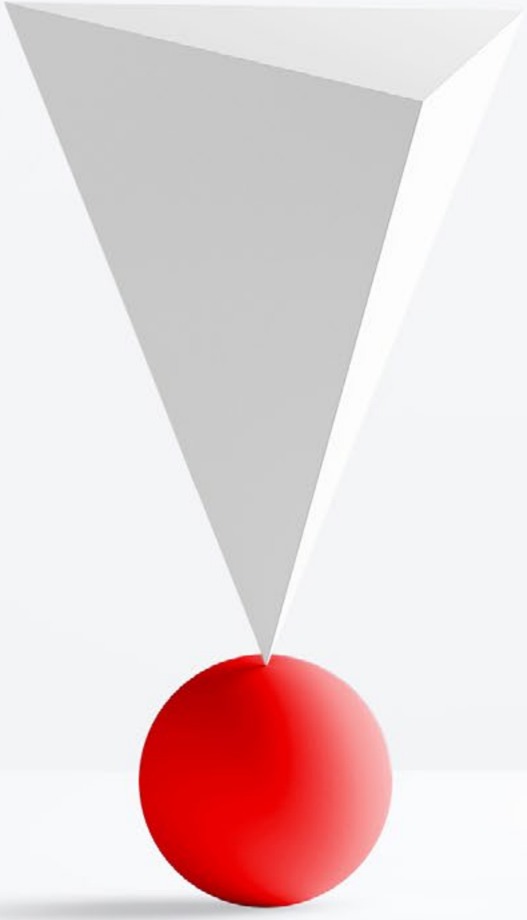
US$9B

A PURPOSE TO BELIEVE IN

Energy availability and affordability enable prosperity the world over. Yet today, nearly two billion people live without electricity. As populations and incomes grow, especially in the developing world, energy demand is expected to climb 30 percent by 2040.[9]

The challenge of meeting that demand is complicated by the need for the energy supply to be delivered through cleaner solutions.

Many people don't believe traditional oil and gas companies can play a role in expanding access to affordable, clean energy solutions.



With energy demand expected to grow 30 percent by 2040, the industry will need

US$40Tn

in investment capital.

A lack of trust by key stakeholders poses important problems but also presents opportunities:

Consumers

Our recent Global Consumer Pulse research confirmed that consumers want companies to not just do well, but do good. Nearly two-thirds stated they are attracted to companies that take a stand on sustainability.[10] Companies that don't step up pay the price. Nearly half of consumers who are disappointed with a brand walk away. Nearly one fifth never come back.[11] Yet oil and gas companies have some of the most recognized brands in the world. As new business models shift to become more customer-centric, an authentic purpose, grounded in sustainability, can become a source of competitive advantage.

Employees

Companies preparing for the energy transition need new skills to build new business models, products and services. But like consumers, employees (especially younger ones) don't see oil and gas companies as part of the "New." They question whether the industry provides the technical maturity, a commitment to climate change actions, or employment stability they seek. Such doubts are creating a significant talent shortage. Only nine percent of 2017 college graduates wanted to work for energy companies.[12]

To capture the interest and support of consumers and employees, as well as institutional investors that are championing climate action, oil and gas companies need to recast themselves as allies in the effort to rethink the energy system and improve living conditions around the globe. Innovative technologies, new business models and partnerships will all play an important role in making energy solutions accessible, scalable, affordable and sustainable.

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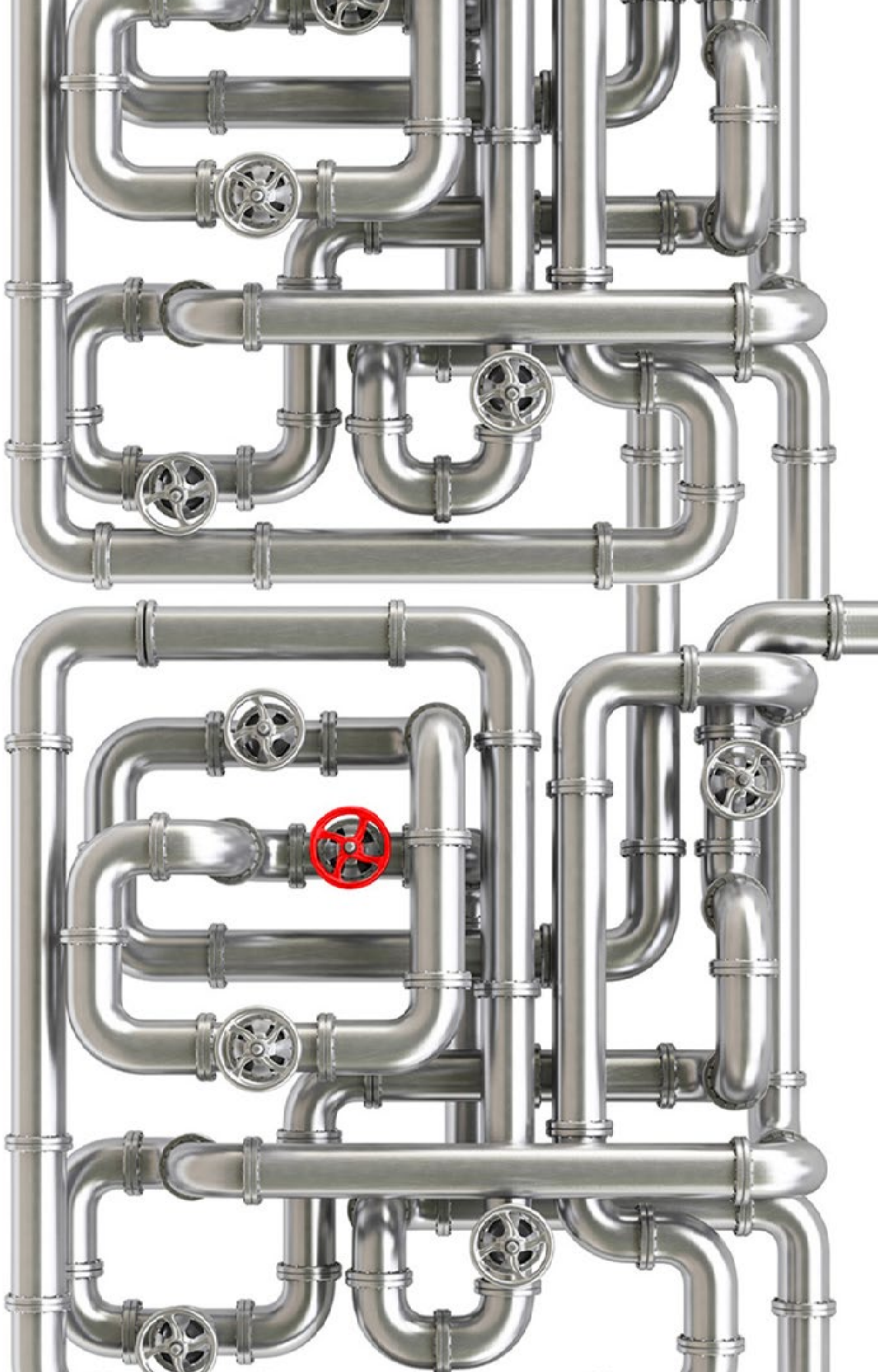
AN ECOSYSTEM TO GENERATE NEW VALUE

Industry leaders know that future competitiveness will require them to be more than volume suppliers of low-margin commodities. But shifting from the current model will require tapping broader value pools, expanding across value chains, and delivering new categories of energy products and services at scale. To do so, oil and gas companies will need to forge numerous new partnerships—not just with suppliers, but also with peers, value chain partners, customers, government agencies, academia, and NGOs. Investments and acquisitions in start-ups and other businesses will provide many companies the skills, innovation or technical prowess needed to pursue new opportunities.

To date, technology, mobility, manufacturing, agriculture and other industries are establishing ecosystems that will shape the sustainable production system of tomorrow.[13] Traditional oil and gas companies sit at the periphery of this activity. Our research found only 33 percent of oil and gas companies use ecosystems to support new business models—lower than any other industry.[14] Further, even within established ecosystems, relationships between industry players and suppliers are largely transactional, not geared to achieving their full potential. For the energy company of the future, ecosystem strategies aimed at boosting collaboration with suppliers and other value chain partners will be necessary for value creation and growth.



FROM TRUST DEFICIT TO TRUST ADVANTAGE

Winning energy companies use trust as a lever for competitive agility. Others can follow their lead.

Be a force for good

Advocate operational integrity and safety, shun unethical practices, and act responsibly to meet societal and environmental needs.

Measure and share what matters

Measuring trust deficits and quantifying their impacts is critical to mitigating trust issues. So is transparency. Share information about operational and financial outcomes, carbon emissions and other pollutants, product safety, and health, safety or environmental (HSE) incidents. Boldly communicate the role the industry plays in enabling prosperity and better lives around the world.

Reassure investors

Create a strategy and governance model that demonstrates how healthy returns can be generated in the core business through innovation and transformation, as well as in new business areas through well-reasoned portfolio investments. Show that risks—and opportunities—have been considered and quantified. Include carbon targets in performance objectives.

Win over consumers

Oil and gas companies will be instrumental in the development of a new energy system at scale. They are also uniquely positioned to develop new low-carbon, recyclable or reusable services or products. Educating consumers about the role of the industry, hydrocarbons and lower-carbon energy in the future is critical.

Be irresistible

With its computing power, operational data, and commitment to digitization, energy is one of the most tech-intensive industries there is. It could also become one of the most beneficial to society in terms of enabling economic prosperity and employment opportunities via the energy system transformation. Attract talent by communicating the industry's position at the leading edge—technologically, societally and economically.

Become a partner-of-choice

To become a trusted ecosystem partner, companies must clearly define the rules of collaboration and highlight their decades of experience in managing capital-intensive projects. Joint ventures, public-private partnerships and new business-to-business and business-to-consumer ecosystems can all benefit from what oil and gas companies bring to the mix.

FIRST THINGS FIRST

How companies build trust as a source of competitive agility will depend on several factors, including the roles they can feasibly play in the energy future, the freedom they have to expand beyond traditional industry boundaries, and their (and their stakeholders') appetite for change.

Whether they opt to strengthen trust in their core business or remake their reputations as ethical, societal and environmental champions, oil and gas companies must start by recognizing that trust can be measured and managed. And, like any source of value that is thoroughly examined, incubated and tested, it can—and must—be sustained over time.

Contributor

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References

1 Accenture Strategy, "The Bottom Line on Trust," 2018.

2 Note: Our Competitive Agility Index found that Energy companies that experienced a material loss of trust due to, for example, data breaches or environmental incidents, saw their Competitive Agility Index score drop by 2.25 points. For a $250B oil and gas company this 2.25-point drop translates into a decline in revenue growth of almost 4 percent (or approximately $9 billion) and a negative impact on EBITDA growth of 11.5 percent.

3 International Energy Agency, World Energy Outlook 2018; Accenture Strategy Energy analysis, 2018.

4 Arabella Advisors, "The Global Fossil Fuel Divestment and Clean Energy Investment Movement," September 2018.

5 Ron Bousso, "Shell to set sector-leading emissions targets after investor pressure." Reuters, December 3, 2018.

6 Oliver Ralph, "Insurers go cold on coal industry," Financial Times, January 8, 2018.

7 Accenture Strategy analysis, 2017.

8 Accenture Strategy analysis, 2018.

9 International Energy Agency Energy Outlook 2017.

10 Accenture Strategy Global Consumer Pulse Research, 2018.

11 Ibid.

12 Accenture Strategy, Gen Z Study, 2017.

13 Jason Compton, "The Coming Energy Transition: How It Will Affect 5 Industries," Forbes, August 2, 2018.

14 Accenture Strategy Ecosystem Research, 2017.

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