



# Competition or Partnership – Value Creation

Crawford Anderson – Baker Hughes

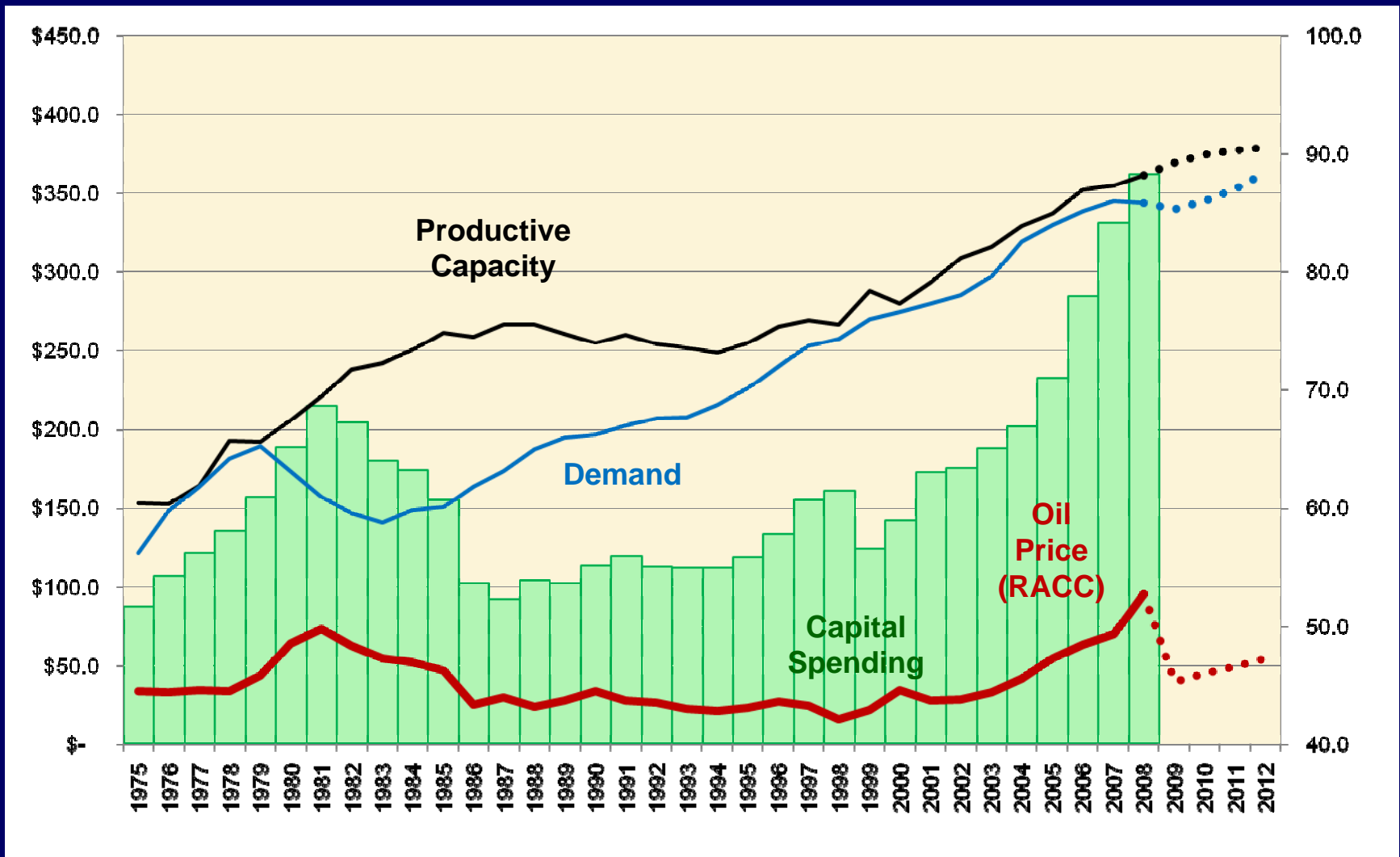
SPE Italian Section Workshop  
“Competitiveness: what future in the E&P Industry?”



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# Demand, Price & CapEx

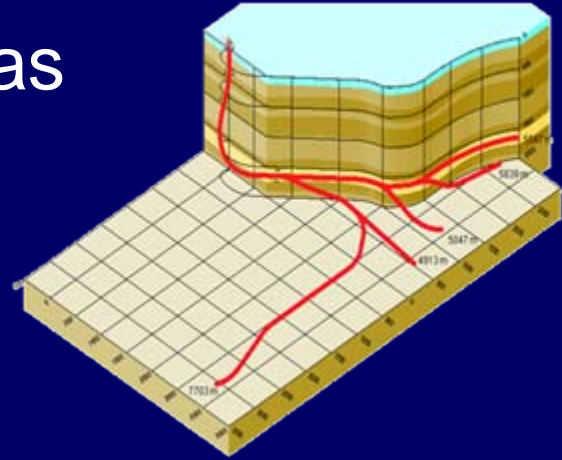


# How quickly we forget!

- *“Given the pace at which these changes are occurring we see the urgent need to adopt a focussed approach to jointly find and negotiate ways to taking significant costs out of our well services supply chains to levels reflecting current reality, while preparing for the next growth period.”*
  - **Super major Jan 09**
- Is it really “jointly” and is it really a “negotiation”? And yet there is recognition that growth will return?
- Appears to be adversarial approach by some procurement groups.

# But we still need technology!

- Most of the easy oil has been found!
- Global decline rates around 4% pa, which means approximately 3.3m bbls need replacing each year
- So continued investment is required!!



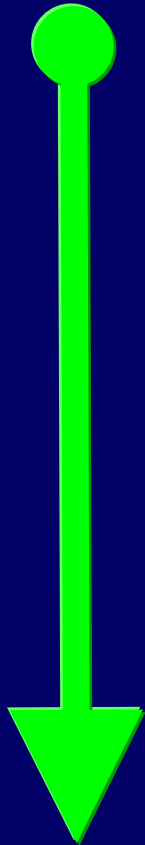


# Consequences

- Long term contracts offer planning stability, allowing investment in:
  - People development (skills training)
  - Technology R&D
  - Infrastructure support building
  - Increasing National Sustainability
- If a contract is not honoured how can a business plan?
- Is the sudden switch to adversarial contracting the only answer to the drop in the oil price?

# Buying patterns impact value creation

LOW



HIGH

- **Commodity Buyers** – Price is everything - limited recognition of value. Assumes there will always be one ready to offer cheaper price. Supplier may hide true price in the bid structure. To survive supplier must strip the product capability.
- **Performance Buyers** – Set specific KPI's and reward on meeting targets, probably requires more than one supplier in the *game* to drive comparison.
- **Technology Buyers** – Specific challenges requires technology to address. Would like to move to performance buyer once other suppliers have similar solution. Without long term supplier relationship buyer can feel exposed to unconstrained price.
- **Value Buyers** – Understand the life cycle costs, analysed where key suppliers can leverage NPV. Incentivizes supplier who can create maximum value. Works on building long term supplier - buyer trust and relationship. Both parties have to work to understand and align mutual goals. Probably the most demanding approach but highest potential value creation. Willing to share some of the value created.

# Is there a best practice?

- Most companies exhibit all forms of the buying patterns at some time
- Different patterns may be appropriate for different projects or developments
- Key is to recognise there are alternatives and buying patterns need to reflect the *real* market conditions
- If the wrong buying approach is applied, then value creation is unlikely to be optimised or sustained.

# Where will we end up?

- When the demand for energy recovers it is reasonable to assume supply and demand curve will converge given decline rate, and drop in current exploration activity.
- Oil price will increase
- Reasonable to assume supply chain will again be in demand
- Where will resources move .....
- They will follow the highest prices
- Which buying pattern will support this?

# Thank You - Questions?

