



## Keeping 'under-the-radar' operating costs under control

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Since the price of oil crashed two years ago, reducing operational expenses has been a top priority at every business in our industry. We've seen numerous major corporate initiatives designed primarily to consolidate procurement sources, establish lower contract prices for goods and services, and even reverse-auction online demand major business spend areas.

These initiatives are successful at lowering operating costs because it's comparatively easy to stay focused

on the high-dollar materials and chemicals, or the expensive service contracts. Few companies, however, watch the pennies. The ugly truth is that every business in the oil and gas industry is hemorrhaging profits through thousands of little cuts. It doesn't have to be this way.

There are several very simple and cost-free ways that watching the pennies could help your business save money this year and beyond. An old saying goes, "There may be only a few ways to save millions of dollars,

but there are millions of ways to save a dollar." Engaging lease operators and front-line supervisory personnel in a culture of cutting costs will go a long way toward controlling those costs, which are considered "under the radar."

### **A diluted culture**

Evidence shows that most downstream and midstream operators in our industry typically leave 3% to 5% of potential cost-reduction savings on the table annually because

addressing them requires a change in organizational behavior and business culture. The oil and gas industry is particularly affected by this because most of the employees working at the wellhead have 20 to 30 years of industry experience but only 2 to 3 years experience with their current company.

Mergers and acquisitions have had a diluting effect on the homogeneous corporate culture. Implementing change across field assets or divisions can be difficult without the help of an organizational change agent. Five percent may seem like a small number for an individual firm, but it costs the entire industry more than \$13 billion per year. So what can be done to overcome these handicaps and start reducing costs?

## **Setting expectations, key performance indicators (KPIs)**

Controlling expenses starts with exacting an expectation from field foremen and other supervisory personnel of the need to find and exploit opportunities to save money. Executives and managers live and die by the targets and key performance indicators, which are linked to their job performance.

What makes us believe that the frontline operators and employees can be successful without them? Can you imagine how you'd feel if your boss just asked you to "not spend as much next quarter" without any guidance as to "how much" or "which categories" and you had no access to analytical or statistical data?

Field supervisors exist in a world of daily and weekly tasks, so they need factual data on operating expenses in a weekly window format, and expectations set in the form of targets and KPIs cascaded from above in order to have the right crucial conversations with their field team members.

A good example might be, "How can we get by with one less water

hauling truck this week?" or "How can we provide enough information about a maintenance need to ensure the instrumentation technician arrives onsite with the correct parts and tools?"

In addition to setting expectations, we need to ensure that cost-savings initiatives are incorporated into the annual performance evaluation process for our field leaders and supervisors. Bonus money tied to performance against an operating expense budget in addition to the standard production budget will motivate your field staff to take the budgeting process more seriously and then be more conscious of doing things to meet that budget during the year.

## **Visibility**

Field leadership needs to know what the historical and current expense picture looks like. That doesn't mean supplying lease operators with the monthly financial reports. You'll get more deer-in-the-headlight stares than at the Buckhorn Ranch. We worked with an offshore producer that actually took away the ability to see the prices of products and services from their personnel on the platforms when they consolidated supply sources, and then wondered why the costs kept increasing.

What front-line operators and supervisors need is a simple weekly summary of money spent on the categories for which they commit funds to suppliers and service companies. These categories sometime get buried in consolidated names in the monthly and quarterly financial reports, so they fall under the radar. All the major ERP programs have reports in their materials management modules, which can extract accumulated weekly spend numbers by field or platform for review by operators. Even vendors are happy to provide weekly extracts from their accounting systems, which can be

modified using a simple pivot-table into a powerful review of local operating costs.

Here are some simple ideas to use the concept of visibility to successfully reduce expenses:

### ***Field services whiteboard***

Many complex (and simple) purchasing ERP systems offer purchase request portals, where an individual can input a request for routine services needed on his run or platform for approval and then order placement. The same thing can be accomplished, but with a greater impact, using a simple whiteboard, where operators write their daily needs so that all the other operators in the group can see. This jogs the memory of other operators at the daily morning meeting and allows for their input. If another operator knows that he needs a vacuum truck, then one truck can be ordered to service multiple runs on the same visit, thus saving the trip costs. This is also a great way to accumulate a full day's workload for roustabout crews.

### ***Service entry reports***

As field tickets get approved before invoices are submitted, an accrual process takes place, usually at the field operations level, where cost elements and pricing are entered into their ERP system for later matching with invoices at the accounts payable department. The cost element accruals are available by material group category for extract down to the field office or platform level, since that's how the well accounting is usually set up. Incorporating these cost element accruals, especially for controllable categories, into a weekly field operating report, along with production and downtime, can have a very powerful impact on the buying behavior of the typical lease operator, connecting him with numbers, which he can clearly identify with.

## It all starts with usage

We're always amazed by the level of attention paid to pricing of materials and services, but seldom are questions brought to bear against the quantity of materials or the frequency of services being performed by our suppliers and vendors. Could it be that management is assigning the primary accountability for operating cost reductions to the accounting or purchasing department? It's the same as holding human resources accountable for developing effective frontline leadership. Here are some ways to look at usage and ensure you're getting quantity and frequency right:

bins will not only tell you whether you're bleeding pennies, but also send the message that you're on the lookout for inefficient usage of parts.

### *Scheduled services*

Why do those wells get hot-oil treatments once a month? If the answer includes the phrase, "We've always done it that way," you may be on to something. When was the last time the hot-oil schedule was reviewed with a specialist or engineer? We got a lot of pushback when we asked this question in a Permian Basin producer recently. It turned out that not only were the schedules set seven to nine years earlier, but the newly

## Talk to vendors

Now there's a novel concept. When was the last time your field operators and foremen sat down with their counterparts from the supplier or vendor to discuss obstacles and ways to work together more efficiently? We've seen the frontline interaction between operators and vendor personnel to be the most effective tool for solving problems and reducing costs. Set up the conference room and serve some barbecue. You'll get more buy-in and real solutions than you may have thought.

## A Market Basket of supplies, services

Understand which areas of financial cost upon which your field personnel have the greatest impact. It's where they are connecting directly with the supplier or service provider to make decisions about quantity or frequency. These make up the "Market Basket" of what you need to hold them accountable for. Tracking the price-points of key items or services within this subset of operating costs will help you establish baselines and key performance indicators, to tell if you're making progress against targets and also take large price increases or decreases out of the picture when usage is the primary indicator you want your field personnel to focus on achieving savings.

## Hidden costs of ineffective maintenance planning

A few of our clients have dedicated in-house maintenance teams to handle our electrical, mechanical and instrumentation needs when it comes to maintenance, but there are a fairly large number of oil and gas companies which use contract maintenance companies to handle the needs in the field. These contractors are paid to perform scheduled preventative maintenance tasks and are also called upon to react to unplanned breakdowns of equip-

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### *Pipes, valves and fittings*

We all need them and we all use them. It's difficult to estimate accurately the quantity of parts mechanics or roustabout crews will need for every job, especially if the initial diagnosis or description of the fault is vague. But what happens to the excess parts or if the parts are incorrect? We've seen brand-new parts sitting in the garbage dumpster behind field offices. Offshore platforms have shelves full of incorrect parts just gathering dust, because it's "inconvenient" to fill out the returns paperwork. If you have roustabout crews, who pick up parts from a parts supplier in your name, are they using excess parts from another job and still charging you for them? A simple walk-through of your yard, a periodic check of your dumpsters, and an occasional peek in your parts

acquired fields had adopted the same schedules because it worked for the other wells (and more is always better, right?). We often hear that when watching a lease operator crank-up the methanol-pump. We persisted with this asset and finally got the foremen and engineers to review their hot-oil schedules. This resulted in decreases in hot-oil treatment frequencies across the asset, much to the chagrin of service company drivers who were buddies with the foremen and lease operators. How about that water hauling service? Is the vacuum truck driver just told to get out to that lease every other day? What about when the tanks are empty because some wells are temporarily shut-in? We don't know of any water hauling company which doesn't charge trip fees, which add up quickly. Remember the pennies.

# Capital Perspectives

ment. These two types of maintenance don't exist exclusive to each other, and ineffective communication of maintenance needs can add to that 3% to 5% operating expense leakage very quickly. If your lease operators or platform personnel are waiting until the contractor comes out to the field to hand him a laundry-list of non-critical equipment issues, then you'll find that the PM visits take longer than planned, and you're paying for more trip-charges because each operator typically has his own laundry list. Most maintenance CMMS systems have very simple tools for logging low-severity problems as they occur so that a mechanic can be scheduled when enough tasks have accumulated to justify a full day's work. Again, since most field operators do not use computers regularly, a simple whiteboard

is great for accumulating that wish list of maintenance tasks which need to get done in the near future.

## Celebrating successes

Finally, we need to establish a means to celebrate successes after they are found and accomplished. We're very good at structuring the regulatory things like MOCs, but not so good at documenting successful cost savings when the results are only in the thousands of dollars. One way to generate quick benefits is to ask field personnel to write up short business-case profiles of ideas. We've seen this work successfully at a number of oil and gas companies.

## Summary

If you're not interested in seeing achievements which don't reach millions of dollars in cost savings, then

these costs will remain under the radar. Remember, you're able to count the dollars only because your front-line field personnel are watching the pennies. Make them all count. **OGFI**

## About the author

*Alex Buehler is a project manager for The Marshall-Teichert Group, which specializes in helping the oil and gas industry optimize revenue and reduce costs through organizational change-management initiatives. He has over 15 years of project management and consulting experience in the oil & gas industry and financial service sector. He is a graduate of the West Point Military Academy, the University of Texas, the Philip Crosby College of Quality, and a Veteran of the US Army.*



## Operational Excellence

For over 27 years The Marshall-Teichert Group (MTG) has been partnering with oil and gas clients to deliver financial, operational and behavioral improvements. Covering all operational aspects of the oil and gas industry (upstream, midstream, downstream) through various economic climates, we have achieved results like these for our clients:

- Reduced Lease Operating Expenses (LOE) up to 17%
- Increased production from base wells by 5% to 12% without increasing LOE or workovers
- Improved craftsmen Time-on-Tools up to 40%
- Increased equipment reliability/uptime up to 33%
- Reduced drilling and frac costs up to 14%
- Decreased unplanned employee turnover and reduced needs to hire
- Accelerated Spud to Put-on-Production (POP) cycle time up to 16%
- Increased lease operator (pumper) productivity up to 15%
- Reduced water hauling costs by over 50%
- Reduced days in the well location selection to release to drill process up to 45%
- Leveraged capital investments in areas such as CMMS, ERP and SCADA to truly impact bottom line

Providing you with the tools needed to maintain a continuous improvement culture is what makes MTG unique. MTG's The Sustainability System® ensures that you have the capability to move your operational performance to a leadership position and are able to maintain that competitive edge year after year. Contact us to find out how we can help you.