



## Upstream Services and Supply - Managing New Opportunities

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### RESEARCH BRIEF

Sponsored by: TELUS Business Solutions

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### SITUATION OVERVIEW

Upstream and Midstream Service and Supply (S&S) companies in Canada are experiencing high demand. Rapid growth is tempting, but many Service & Supply firms do not have the cash, labour or equipment required to grow and maintain profitability.

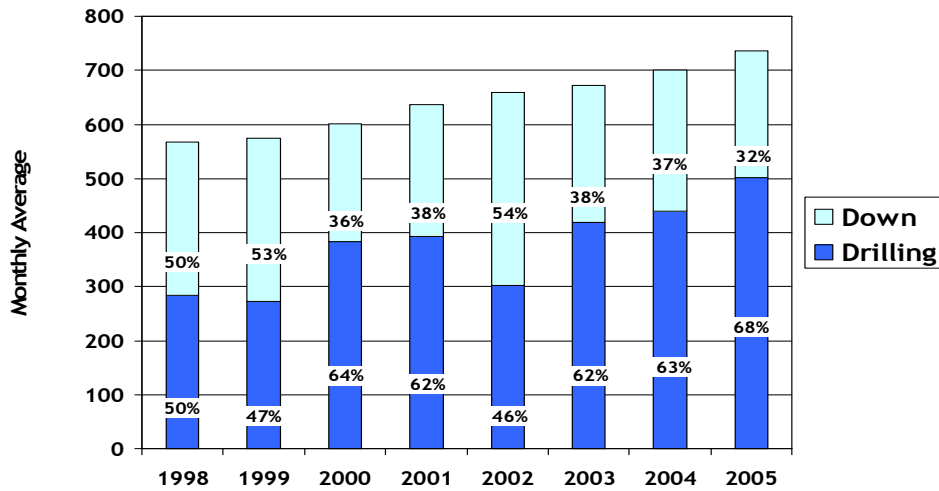
Producers are dependent on the firms that service them to meet needs. In spite of this, some producers are delaying payments due to their S&S partners. Other producers have acquired S&S companies outright to secure labour and equipment. For some S&S firms, survival is in question even in this period of strong demand.

Total Canadian oil production is expected to grow from its currently high 2.6 million barrels per day (b/d) today to nearly 4 million b/d in 2015. Oil sands will contribute 75 percent of the total at this point. The gas industry is poised for even stronger growth.

Producers are focused on increasing total production levels quickly. Drilling rig counts (see Figure 1), which are a good indicator of overall S&S activity, have increased in recent years but there is still a significant amount of idle equipment. Many S&S firms appear to be inhibited by their project and logistics management capabilities. There is room for substantial improvement in equipment utilization.

**FIGURE 1**

Western Canadian Drilling Rig Counts



Source: CAODC 01-06

Hiring and retaining workers is a major challenge for service providers. Skilled employees are being lured away by clients and competitors. Competition for workers has radically increased salary levels. Many companies are importing labour from the eastern provinces and Europe.

Service and Supply companies are often caught in the bind of needing to improve productivity, but not having the time to do it. Because of workloads, workers often resist embracing new technologies that could help increase their productivity and job satisfaction. New information technology applications typically have long adoption cycles.

## RESEARCH FINDINGS AND STRATEGIES

S&S companies are deploying a broad range of strategies to leverage demand and mitigate their challenges. These include:

- **Specialization for increased profitability.** With the exception of Engineering, Procurement & Construction (EPC) firms, most S&S companies are embracing specialization. During periods of high demand, firms have the luxury of focusing on their most profitable capabilities. This strategy is attractive because it can simplify management and streamline operations. When demand diminishes the S&S companies will likely expand their service portfolios.
- **Partnering with producers to gain profitability.** Many Service and Supply executives are making the trade-off between short-term profitability and the stability of long-term relationships with producers. Partnering with a limited number of producers on a long-term basis may be the best approach to easing cash flow problems, and reducing resource-planning complexity. Some producers are offering profit sharing outsourcing deals that could be the best choice for S&S companies in the long term.
- **Using training to drive business growth and productivity, and retain workers.** While a few S&S firms view training as simply a means of meeting certification requirements, most S&S firms view training as a key strategy to address several of their most pressing challenges. It can:
  - Bring new workers up to speed quickly so firms can meet opportunities with an acceptable level of risk.
  - Improve existing workers skills so that they can perform new tasks, work faster, and have more satisfying careers, improving retention.
  - Help improve overall safety and reduce less lost-time accidents to drive productivity.
- **Using Health, Safety, and Environmental Compliance as a competitive advantage.** A good compliance record can lead to improved customer satisfaction, greater competitiveness and higher fees. Producers can overcome the HSE deficiencies of some S&S providers with targeted supervision and other supplemental programs. However, producers' labour shortages and concerns about stakeholder relations create a preference to work with S&S firms with superior HSE records.
- **Examining internal processes for speed and efficiency.** At today's energy prices, E&P companies have less tolerance for

inefficiency. S&S firms are focused on improving speed, communications with their clients, and overall efficiency.

## **RECOMMENDATIONS**

Shortages in available labour, equipment and even cash flow are creating challenges for S&S firms. Firms that are able to overcome issues through the use of creative strategies are likely to profit from today's unprecedented market opportunity. Based on the research findings, Energy Insights recommends:

- **Increasing the use of advanced project management and supply chain management applications.** Projects in all parts of the industry are becoming more complex. Increased focus on safety, speed and resource considerations have all added to the balancing act that characterizes today's projects. Producers should focus on acquiring tools that can help facilitate more complex decision-making using cross-enterprise information.
- **Improving levels of applications and communications integration.** Integrating "stove-pipe" applications will streamline operations and reduce workloads. Linkages between field systems and back office systems can drive higher levels of productivity. For example, implementing a field ticketing system and linking it to internal and partners' administrative systems improves accuracy, reduces trade settlement workload and costs, and automates billing/account payable administration. Automation of ticketing can also have a direct impact on safety by facilitating incident investigations.
- **Linking advanced communications capability with equipment and worker monitoring to improve operational safety, efficiency, and service levels.** We recommend that these technologies be considered in several areas:
  - Worker monitoring, while being used primarily to ensure safety, can yield other benefits. For example, the same systems can be used to support peer-to-peer or worker-to-client communications for superior levels of service.
  - Vehicle position monitoring should be used to optimize scheduling efficiency as an adjunct to worker safety monitoring. Balancing privacy considerations is needed to ensure high acceptance by the workforce.
- **Using advanced training systems.** Training programs should use computer-based programs, distance learning, and other methods of facilitating access at any time in any location. We recommend

looking at all providers to create a comprehensive program to meet company goals.

- **Investing in document and content management systems.** Document management should be a key focus. Tracking certifications, permits, field tickets and other operational information for use internally, with clients and regulatory bodies will boost efficiency and service levels. Document management projects should focus on automating document creation, management, and providing broad access. Advanced levels of security are to be embedded in document management solutions to handle risk while facilitating legitimate access.

## **NEXT STEPS**

To become part of this research study and benchmark your organization against others in the study group, please contact TELUS Business Solutions at [www.telus.com/energysector](http://www.telus.com/energysector).

## **METHODOLOGY**

TELUS Business Solutions sponsored this research study. Nine executive interviews, conducted in November and December 2005, were with senior business executives who work at Canadian Service & Supply companies. Respondents were screened and qualified based on decision-making authority and the scope of activity within their organizations. Filigree Consulting, on behalf of Energy Insights, conducted the telephone interviews.

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