



## Foresight

# Cost Cutting: IT Outsourcing in the Oil and Gas Sector

---

As we have recently witnessed, the oil and gas industry is significantly impacted by the current political environment and oil price volatility. In these harder times with a reduced oil price there is pressure on the oil and gas companies to make savings. IT outsourcing is a key strategy which allows for the operating costs of a company to be significantly reduced. In this article we will discuss aspects of IT outsourcing that may further contribute to cost savings that the industry should be considering.

### Supplier Consolidation

Many oil and gas companies are reducing the number of suppliers that they work with as a means of reducing cost and achieving better terms under framework agreements entered into with key suppliers. A framework agreement often allows for better terms to be achieved overall and a lower purchase cost for the company as a result of competition between suppliers who are eager to secure the work. These benefits have been witnessed first-hand by CMS while acting for a number of operators entering into global framework agreements with a variety of suppliers which each led to significant cost savings.

A cost reduction opportunity also exists in relation to the reduced processing costs for the procurement teams when

engaging with fewer suppliers. For example, per supplier processing costs include sourcing the supplier, inputting the supplier into the internal system, transacting with the supplier and managing the ongoing relationship. Additionally, consolidation of a supplier network allows a company to benefit from economies of scale as cost savings will be made from consolidated spend.

The potential cost savings for an oil and gas company should not be underestimated. To put the potential saving opportunity into context, BP spent an estimated 65% of its \$3 billion annual budget with 3000 suppliers in 2008 but now outsources to only 7 key suppliers. This reorganisation incurred savings for BP of an estimated \$800 million.<sup>1</sup>

### Cloud Based Solutions

Cloud computing, in simple terms, involves the delivery of a variety of different IT services via the internet. The options available in cloud based solutions are vast and include services such as human resource solutions, business process management solutions, expenses systems and invoice systems.

More specifically, there is a significant market for oil and gas cloud based solutions. In 2014 the market was estimated to

---

<sup>1</sup> <http://www.computerweekly.com/blogs/outsourcing/2011/09/how-bp-got-its-it-suppliers-to-collaborate-and-perform-after-massive-vendor-consolidation.html>

be worth \$2.7 billion and as the demand for cloud applications continues to grow the value of the market is expected to be worth \$5.1 billion by 2019<sup>2</sup>. Cloud based solutions specific to the oil and gas industry include, for example, data analytics software which is used to analyse data relating to upstream, midstream and downstream processes. The CMS team has worked with a number of oil and gas companies to implement cloud based solutions.

An advantage for oil and gas companies of adopting cloud based solutions is the potential saving on upfront investment costs as the company is not required to purchase software and hardware. Cloud based solution services tend to charge either on a periodic or usage based charging system. Periodic charging includes a subscription fee which is often based on the number of users or transactions. In the oil and gas sector, usage or transaction based payments will be attractive as it minimises wasted charges and allows the business to scale up or down the solution to meet the demand which is an efficient and flexible model. This predictability of payment profile is an attractive model for an oil and gas company with the ever changing oil price and varying supply and demand.

Nonetheless, while cloud based solutions present a favourable cost cutting solution and will benefit organisations in assisting with certain applications and parts of their IT infrastructure, companies should carefully consider the risks. Cloud based solutions present standard solutions which are not tailored to meet the specific needs of an organisation. The parties usually contract on standard terms and will likely include limited warranties and indemnities. Data Protection needs to be considered as personal data can be stored in potentially unknown locations. As data controller, an oil and gas company may have no visibility to ensure that the supplier has appropriate

measures in place to ensure their compliance under the Data Protection Act 1998. An organisation should be careful when entering into cloud based solution agreements (such as software as a service) that the terms are sufficient to ensure that any personal data processed is in compliance with data protection legislation.

As oil prices remain low, oil and gas companies are seeking innovative ways to reduce expenditure. While IT outsourcing has long been recognised as a successful means to reduce operating costs of a company, oil and gas companies should consider consolidating their supplier lists and implementing some cloud based solutions to reduce costs in this current climate, while retaining a competitive edge.

This is the latest Foresight article in our Transformation series looking at the future of North Sea Oil and Gas. Discussing various issues from technology to employment and disputes, our sector experts offer their commercial opinions on the future of the industry. Please feel free to forward this Foresight to a colleague or to subscribe to our mailing list [CMSEmployment.Team@cms-cmck.com](mailto:CMSEmployment.Team@cms-cmck.com).

## Key contact



**Alan Nelson**

Partner

T +44 141 304 6006

E [alan.nelson@cms-cmck.com](mailto:alan.nelson@cms-cmck.com)

---

<sup>2</sup> Oil and Gas Cloud Applications Market by Type (Data Analytics, CRM, ECM, Collaboration, HCM, ERP, Project Management, SCM, GRC, Core Industry Applications) - Worldwide Forecast and Analysis (2014 - 2019)