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Plan to review, exploit and innovate in 2016: Strategy& report on oil & gas trends

London, 21 Jan 2016 - As oil and gas executives navigate one of the most volatile periods in the industry's history, a new report by PwC's Strategy& looks at three steps that could help deliver a 'new normal' within the maelstrom of change anticipated in 2016.

While it's clear that the demise of oil is nowhere in sight, market fundamentals are certainly out of kilter. This is predominately due to continuously low oil prices, significant over supply issues and increasing competition in the market, factors which are now being overlaid by a growing acceptance that the industry is operating in what will be an increasingly carbon-constrained world.

Against this backdrop, energy company executives must also determine if the sale and targeting of investments in 2016 reinforce their longer term strategy aspirations. In short, they need to review, exploit and innovate.

It's a daunting – but not unsurmountable – task says Viren Doshi, Strategy& oil and gas leader:

"The old Churchill adage about the pitfalls of failing to plan effectively is certainly one we'd advocate during these tumultuous times. Managing uncertainties requires a plan that not only takes advantage of current conditions but simultaneously enables the company to create scenarios that will help drive success with this 'new normal'.

"CEOs will continue to face a slew of questions – for example, should large integrated O&G companies double down on low-carbon technologies in their portfolio? and will upstream operators end up with stockpiles of 'unburnable' petroleum reserves? – and it is vital they are not only well informed but able to respond swiftly and effectively as these issues evolve."

The 2016 Oil and Gas trends report outlines three steps to delivering an effective plan:

1. **Review**: Missteps and overreaching are potentially disastrous in this complex climate. Instead of broadening the business to pursue every opportunity that arises or overextending on legacy issues, take time to analyse and identify what the organisation does best and those potential growth areas where the firm can draw on its strengths to both outperform and outpace competitors.

   All too many exploration firms have delved into production, only to discover that the complexities of these operations, and the capital and skills needed to support them, drain the business of resources, making it hard to do either activity well.

2. **Exploit**: no matter how tempting or pressured it gets, avoid arbitrary cost cutting – it could impede agility and leave firms ill prepared as the market evolves. Instead, channel funding into areas of growth that will best promote revenue generating, differentiating capabilities.

   Firms should also start linking their investment to programs that will enable them to produce oil competitively while reducing their carbon footprint as much as possible. Even integrated energy firms should seriously consider incremental diversification, moving gradually into low-carbon technologies such as natural gas as a transition fuel or managing/acquiring renewable sources such as wind, solar or biofuels.

3. **Innovate**: Technology is king. Oil and gas firms need to exploit new technology to innovate, minimise costs, and even retrofit existing equipment for refining and producing renewable energy, which will help them achieve a lower-emissions environment. Demand for digital oil-field applications will continue to grow, enabling operators to link and monitor multiple platforms remotely from a single onshore centre.

Andrew Clark, Strategy& partner, added:

"As we enter a second year of low oil prices, every industry operator will be challenged, albeit in different ways.

"It's vital that our oil and gas CEOs rise to the occasion, identifying robust strategies that will enable them to reposition their firms and capitalise on their current market-leading strengths as well as future opportunities.

"After all, the actions they take now will be pivotal in shaping the future of the industry over the next 10 years."

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