

Utilization of Contract Management in the Oil and Gas Industry Could Raise ROI

"Often, business units, field offices, even specific departments such as drilling aren't aware and do not currently have access to existing negotiated contract terms that have been negotiated in support of a strategic sourcing initiative, or to satisfy specific field requirements," commented Rod Munro, president and chief executive officer, Digital Oilfield.

The company discovered that most contract administration, operations and procurement professionals have weak contract visibility and lack sufficient corporate controls and negotiating leverage when it comes to contract management.

Contract management software is something Digital Oilfield would like to see utilized in the oil and gas industry.

The company believes that several benefits, such as cost reduction, improved corporate controls, improved supplier performance and risk mitigation, could be achieved with this type of technology.

According to research done by Goldman Sachs, the global contract management system is expected to grow increasingly over the next few years, as there is a desire to unite buyers and suppliers electronically.

Contract management software could reduce costs through process automation and price reconciliation, improve corporate controls by standardizing processes and auditability, and mitigate risks by ensuring contract compliance, said Digital Oilfield.

The company also feels there is poor contract visibility since most business contracts are dispersed throughout the entire corporation, which makes access to them extremely challenging.

Although contracts may be in place, access to a recent copy or terms and conditions of a particular agreement are not always accessible to those responsible for the contracted work.

According to Munro, studies have recognized that because service personnel at field locations do not have access to contract pricing, there are

significant percentages of contracted line-items that are priced incorrectly.

Service personnel are not able to electronically access contracted pricing, therefore, internal systems are unable to line-item price check against complex services invoices.

"Our research indicates that line-item price compliance can deliver savings as high as 5.0 percent of total E&P spend," he added.

Digital Oilfield also believes that a company, that may have a specific contract approval system, often has a decision-making audit trail or approval process that is either lacking or not there at all.

"This not only exposes the company to 'maverick' contracting, but also to increased risk and expense. This is of particular concern in light of the new corporate governance regulations contained in the Sarbanes-Oxley Act," he noted.

Information from past supplier relationships may not include all the information required to negotiate the best option for a company since contract, price and supplier performance data may not have been recorded in a detailed manner.

Supplier performance management could be achievable with the software that would evaluate contractors through price and electronic contracts deliverables, which list an operator's expectations of the supplier, including performance reports and end-of-well or project summaries.

Suppliers may also need electronic access to a contract during certain phases of a project to indicate that a contract requirement has been completed or to receive deadline warnings.

Enterprise access for operations personnel enables a business to produce new contracts, increased compliance, and reduced risks since terms negotiated in other business departments can be evaluated and considered.

Service companies and their employees' compliance with safety and training certification requirements present a difficult situation for contract administrators since operations

are often undertaken in hazardous condition.

Compliance then becomes an important part of contract management in evaluating supplier performance and provides a return on investment (ROI) on risk mitigation.

"Ensuring that third-party contractors, both onshore and offshore, maintain current certification is an almost impossible to process manually. Electronic contracts management solutions must exhibit the capability for supplier self-service certification against required contractual terms," Munro explained.

The company also believes that a significant ROI can be achieved since the technology would improve the contract-to-invoice reconciliation process involved with services like completions, drilling, well services, field operations, and plant and facilities maintenance.

"More than 60 percent of an operating company's annual spend consists of complex services. Line-item price reconciliation for complex services therefore becomes a high value ROI opportunity within a contracts management initiative," he continued.

"PriceWaterhouseCoopers suggests companies could realize savings that equate to 2.0 percent of total annual spend by eliminating inaccuracies and non-compliance through contract automation. So, an oil and gas company spending \$1 billion per year could save up to \$20 million per year annually," he pointed out.

Digital Oilfield feels that contract management should focus on computerization of the negotiating and contracting process to eliminate labor-intensive work and organizational gaps.

According to the company, computerization could eradicate incorrect pricing and automate identification of soon-to-expire contracts.

Automated and standardized workflows could bridge organizational gaps between operating companies and their suppliers for better processes, lower costs and mitigation of risks.