



# Adapting to Today's Reality in Oil and Gas

## Introduction

The oil and gas industry is under extreme pressure. Prices have plunged with economic uncertainty and oversupply around the world. Demand is hampered by slower economic growth, a weak economic outlook for emerging markets, and increasing commitments in developed countries to move toward alternative fuels. There are indications that these pressures will persist far beyond the short term where price risk may be mitigated by hedging strategies. In January 2016, US EIA Administrator Adam Sieminski testified before the US Senate that *“The excess of supply over demand has contributed to oil prices reaching the lowest monthly average level since mid-2004. Inventories are forecast to continue rising in 2016, before the global oil market becomes more balanced in 2017.”*<sup>1</sup>

In this climate, oil and gas companies are searching for ways to increase agility and manage costs across all operations. Cloud-based platforms such as Coupa offer the opportunity to control spend systematically, improve compliance, manage risk, and drive out cost in a sustainable way.

## A Challenging Business Environment

Effectively controlling spend requires a comprehensive approach to the complex business landscape that oil and gas companies face. Regardless of their size and whether they operate domestically or internationally, oil and gas companies have complicated structures and reporting obligations. Not only are global companies subject to intricate tax systems in all of the countries where they operate, but the largest players have upstream, midstream, and downstream operations with different contractual arrangements. The industry must manage multiple service requirements—such as craft labor for exploration and production, throughput agreements for gathering and processing, and multiple agreements for downstream services. Supply risk is increasing with mounting financial pressure across the supply chain that has endangered many suppliers, especially small and far-flung suppliers of emergency services and critical parts.

A major operational complication involves the distributed nature of spend decisions. Many spend processes occur remotely—in the field or in a distant facility where traditional technology solutions are not available but time is of the essence. And spend may flow through various legacy systems that are difficult to use and disjointed. Reporting from multiple locations and different systems makes control especially difficult.

## Lack of Systems Adoption

To improve control, companies are reviewing their capabilities, including their technology systems. They face some problems, such as connectivity limitations at remote exploration and production sites around the world. More vexing is the fact that with varying levels of tech savvy among company employees and suppliers, the tools and systems intended to promote efficiency can get bypassed. As a result, paper-based

<sup>1</sup>[http://www.eia.gov/pressroom/testimonies/sieminski\\_01192016.pdf](http://www.eia.gov/pressroom/testimonies/sieminski_01192016.pdf)

processes remain in place—resulting in unapproved or off-contract spending, paper pushing, and delayed payments to suppliers. Down time due to delayed approvals or escalations by unpaid suppliers is a killer of operational productivity. Inefficient use of administrative staff is also a prime source of controllable spend.

### Disjointed IT Landscapes

Historical approaches to managing procurement in this complex business environment often resulted in systems proliferation. Expenditures for capital projects, maintenance, drilling projects, and operations have been captured in separate systems. Sophisticated, up-to-date technology is essential for connecting the pieces and improving cost controls while also complying with policy and regulation. Today, companies using disparate systems are looking for ways to gain visibility into spend and to handle compliance. As some firms weather the drop in prices and others do not, stronger companies will have the opportunity to acquire troubled companies and distressed assets. In that case, the need for cross-system control will intensify.

### Eyes on Risk

The industry is focusing closely on compliance and risk management, both financial and operational. Adhering to internal policies and controls is critical. Following the BP Deepwater Horizon accident, companies are well aware of the potential financial impacts of improper or unsafe work by suppliers. Compliance with respect to approved suppliers and materials can have a significant impact on safety and operational performance. Supply risk is intensifying with downward drift in prices. With up to 35% of exploration and production firms around the world at risk of insolvency<sup>2</sup>, suppliers across the industry are also being stretched. Those whose teams lie idle or whose invoices go unpaid may themselves become insolvent and disappear.

## A Different Approach to Spend Management

Across the oil and gas value chain, companies are using Coupa to replace manual processes and legacy systems. Companies can reduce complexity by managing spend across all their operations in just one place while improving profitability, reducing risk, and enhancing operational efficiency with the Coupa spend management suite.

Coupa's approach to spend management differs from traditional approaches to spend in three important ways: Adoption by All, Single Unified Platform, and KPI Driven Success.



<sup>2</sup><http://nbr.com/2016/02/16/35-of-drillers-at-high-risk-of-bankruptcy-report/>

- **Adoption by All** Coupa has been recognized by analysts as the standard in the Procure-To-Pay (P2P) market for usability. Rapid adoption is typical for all constituents—from field engineers, to refinery operators, to AP employees in the office, and to suppliers as well. Ease of use coupled with mobile enablement means that Coupa is a tool that employees and suppliers will actually use—as easy as a phone call from the field.
- **Single Unified Platform** Coupa provides a single solution for all types of spend—from procurement to non-PO invoices and expenses. Coupa features easy-to-configure, easy-to-change applications built on a single Cloud platform. It offers synergy among applications with no cross-application integration required. The platform is scalable and easy to integrate with other systems.
- **KPI-Driven Success** Coupa’s Cloud model means fast time to value and lowest Total Cost of Ownership (TCO), critical in today’s challenging market conditions and complex business environment. Customer relationships are based on an annual subscription, with periodic reviews of mutually-agreed Key Performance Indicators (KPIs) to maximize customer success.

## Driving Cost Control with an Easy-to-Use Platform

A spend-management platform deployed across all employees and suppliers gets extremely high levels of adoption when the platform is easy to use—leading to increased savings on materials and services, as well as improved operational efficiency. High levels of end-user adoption reduce off-contract spend and give sourcing teams the visibility they need. Adoption among suppliers and managers alike enables more efficient processes that reduce administrative costs and the down time that can result from delayed approvals.

### ADOPTION DRIVES SUCCESS

“We’re now finally getting visibility into what we’re buying, and what we’re spending. Our guys could talk about directional drilling all day, but with technology, it’s iffy. With technology where it is today, we all felt that we should have a technology that is similar to shopping online. With Coupa, adoption has been extremely successful across the board. We decreased our approval time by one entire business day. Users are getting what they need and the orders are much more accurate.”

- Jon Siudut, Manager, Supply Chain Management, Northern Pipeline

## Increase On-Contract Spend to Maximize Savings

With an easy-to-use spend management platform that is rolled out and adopted across the entire company, the first source of savings is simply getting a better deal on things that the company buys. Because Coupa is easy to learn and easy to use, even tech

resisters make purchases online, rather than calling suppliers or working around the system—thereby increasing on-contract spend and maximizing savings. Sourcing teams can leverage this usage to negotiate for better pricing and better terms, based on real-time visibility into spend at the supplier and contract levels.

### **Reduce Time Spent on Administrative Tasks**

Adoption by company employees and suppliers saves employee time on procure-to-pay activities, further reducing costs. Coupa's mobile capability lets field-based employees focus on operations instead of back-office order processing. Suppliers have several options to move transactions online, including transacting entirely through email. High levels of e-invoicing adoption streamline Accounts Payable by getting rid of paper, while also eliminating supplier overpayments and enabling early-payment discount programs. Configurable, automated workflows accelerate the process of routing invoices for approval, even by mobile users in the field. Capturing document images for requisitions and invoices on mobile devices speeds the process.

### **Avoid Down Time with Timely Approvals and Payments**

Approval via email on mobile devices means that field-based managers can approve on site without even logging in. Field operations avoid the risk of interruption due to delays in approvals or escalations from suppliers upset about unpaid invoices. With real-time visibility, managers can track transaction status into where an invoice or PO stands in the approval process. There's no more having to call a job-site superintendent or a corporate VP to see whether a paper invoice is waiting for approval in a stack on a desk.

### **Achieving Operational Excellence**

With all spend flowing through a single unified platform, effective management and compliance get a lot easier. Managers can see the data they need when they need it. Coupa captures all classes of spend—capital, maintenance, repair and operating, general, and administrative—for 100% visibility into spend and suppliers. It's all there in a single system, including PO- and non-PO-backed invoices, and expenses. Coupa's Cloud platform makes it easy to integrate with industry-specific supplier networks and materials management solutions, as needed, to ensure that every dollar of spend is included.

### **Monitor Supplier Viability to Guard Against Disruption**

100% visibility lets companies monitor their suppliers for commercial viability and ensure that their own practices don't add undue strain so that suppliers will be there when they're needed. Managers can understand how much spend has gone to each supplier, whether the supplier is participating in sourcing events, whether there are any outstanding POs, and whether the supplier is being paid promptly. In some cases, category managers may want to choose larger suppliers with better financial footing. Running e-sourcing events provides the opportunity to collect disclosures on viability from participating suppliers, in addition to securing the most competitive price in a challenging environment for supplier constancy.

## Ensure Use of Approved Suppliers to Manage Risk

By funneling all spend through the Coupa platform, companies are able to operationalize their contracts and ensure compliance with the varied regulations they are subject to. Supplier information and certifications are collected and managed using the same, familiar Open Business Network™ that suppliers use to receive POs and send invoices. The system shows approved vendors and contracted items at the time of requisitioning and/or purchase. This feature ensures the use of approved suppliers with safety and EH&S documentation on file.

## Reduce Overspend with Real-Time Visibility

Real-time budget visibility for managers from any mobile device, anywhere in world, helps reduce overspending. Coupa enables improved accrual forecasting based on tracking spend against AFEs. With full visibility, managers can track where they are relative to budgets and stay within them. Both PO- and non-PO-backed invoices can be coded based on attributes such as asset ID, well unit number, JV Division of Interest, main/sub account, lease number, project and AFE to ensure that budget consumption is accurately tracked.

## Streamline with a Single System for Reporting and Audit

Coupa's single unified platform provides a reporting and auditability layer across the entire company, with workflow and audit trails for SOD compliance. With low IT and bandwidth requirements, it is easy to deploy Coupa anywhere in the world to ensure 100% compliance. The business can modify configurations over time without heavy involvement from IT as requirements change. Dynamic workflow for PO- and non-PO-backed spend ensures that approval hierarchies are followed. Coupa supports segregation of duties allowing a complete audit trail of who approved what—and when.

## Managing Growth and Change

Coupa is right for the times. The companies that survive current hardships will be those that can use adversity to optimize their supplier relationships, source more broadly and effectively, monitor suppliers' ability to perform, and respond nimbly to changes in their supply base. Real-time visibility and control over all costs and budgets create a business lever to help them swiftly adjust operations to accommodate market ups and downs. Minimal training requirements and fast adoption make Coupa the right business tool for integrating new entities and employees. The low training requirements, fast adoption, and easy integration with new-venture ERP systems let companies quickly get visibility into spend across acquired entities, and institute financial controls to start realizing synergies immediately.

### **RAPID TIME TO VALUE**

Large industrial companies with global operations and complex IT landscapes may be concerned about the timelines and delivery risk they have experienced with previous systems projects requiring ERP integration, organization-wide change

management, and user adoption. But with hundreds of customers and successful implementations around the world, Coupa has found that even large industrial companies realize value quickly following deployment.

“The actual process of implementing Coupa was something that we thought long and hard about. We have 270 or so locations in the U.K. and all different types of businesses. We needed a tool that was easy and intuitive. From start to finish it took something like 14 weeks to implement. And it wasn't a gradual phase-in. Within a week everyone more or less had gone on to the system live.”

“The simplicity of the Coupa system means that it’s just intuitive, so the training needs weren’t extensive. We’ve seen an 80% improvement in process time from requisition to purchase order.”

– Gerard Cantwell, Procurement Director, Aggregate Industries

## The Bottom Line

When prices fall, companies search for savings—any way to cut costs. Not every company will survive, but the strongest ones will enhance efficiencies in their own operations while identifying opportunities to acquire assets at distressed prices. Risk management and compliance remain critical. Coupa offers the oil and gas industry solutions to controlling spend and making management more effective, in order to improve business processes overall while also improving the bottom line.

### BOTTOM-LINE IMPACT

The financial impact of simply improving spend under management can be extremely significant for oil and gas companies.

Revenue		\$1 B	\$10 B	\$50 B
Addressable by Coupa*	13%	-	-	-
Spend Under Management Prior*	59%	-	-	-
Spend Under Management with Coupa*	85%	-	-	-
Spend Under Management – Incremental	26%	-	-	-
Savings Rate*	10%	-	-	-
Savings		\$3.4 M	\$34.3 M	\$171.6 M

For a full analysis of the potential impact of using Coupa at your company, please visit <http://www.coupa.com/contact-us/>

\* Coupa and industry benchmarks

Want to learn more about how to realize savings, increase visibility, and improve compliance? [Contact Coupa](#)



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