Oil and Gas: Process and Liquidity Optimisation
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The current low level of oil prices is inevitably putting pressure on oil and gas company treasuries to cut costs. But there are two broad ways of accomplishing this: the short term fix of merely cutting treasury resources and investment, and the more farsighted alternative of analysing existing processes and optimising them. As Lance Kawaguchi, Managing Director, Global Head of Resources and Energy Group – Payments & Cash Management at HSBC explains, the latter approach delivers far more value – both now and in the future.

A combination of low prices and high levels of supply have placed the oil and gas sector in an unprecedented situation. Activity, liquidity and profitability have declined substantially, with industry profits expected to shrink by 20% to 30%, while return on capital falls to around 3% – versus 20%+ in 2005 and 20061.

The implications of, and responses to, depressed oil prices can be grouped into the country/region-specific and the general. For instance, in Australia much of the pressure is coming from a combination of long term LNG supply contracts being price linked to crude oil and long term commitments to ongoing LNG infrastructure investment against a backdrop of declining LNG prices.

In Asia, there is a growing drive to build international oil and gas presence, with Thailand and Indonesia being particularly active. In Latin America, a combination of attractive new resources and the international opening up of markets such as Mexico (and potentially Argentina) has seen more emphasis on long term opportunity than short term adversity.

Elsewhere, Canada’s relatively high cost of oil sands production and increasing US2 domestic supply have caused financial discomfort, but also driven a quest for new customers – especially in Asia. In MENA, there is an emphasis on economic diversification away from purely oil, but at the same time there is also a willingness to proceed with investment in increasing production capacity. Finally, in Europe, low oil prices are affecting profitability as elsewhere, but there is also a shift to energy diversification with sharply rising renewables investment. There is also growing focus on pipeline investment to help address the growing need to source oil from outside the region3.

The general theme running through many of these specific situations is investment; while oil prices may be low at present, there is still a mid to long term need for investment and a need for liquidity to fund this. That in turn means that short term cost cutting alone will not suffice – oil and gas company treasuries need to be developing strategies to improve processes that will boost the release and concentration of existing internal liquidity for investment, as well as generating cost efficiencies.

2The destination for 71% of Canadian crude production, according to the National Energy Board of Canada (2013)
3By 2020 ~90% of EU oil products will need to be sourced from outside the region –
http://www.europarl.europa.eu/document/activities/cont/201006/2010628ATT22856/2010628ATT22856EN.pdf - Section 2.3 Oil Pipelines
Processes and technology: analysis and refinement

While it is apparent that oil and gas company treasuries are under pressure to reduce costs, they are also under pressure to release liquidity for future investment. Both these objectives could be achieved through a thorough analysis of existing processes, followed by the identification of any implicit inefficiencies and the execution of an appropriate process re-engineering roadmap that addresses those inefficiencies. The big question is who will actually do all this? Corporate treasuries themselves are unlikely to have the resources available, while budgets for external consultancies’ fees are also unlikely to be available given the current pressure on oil and gas company profitability.

It is not commonly realised that the answer lies with certain banks, who have for some time made teams of in house process, liquidity, SWIFT and ERP specialists available to assist their clients with this re-engineering. In some cases, this service is offered by banks as a means of trying to achieve ‘trusted advisor’ status by delivering value added solutions that are client centric rather than product led. Furthermore, these solutions are grounded on the experience and expertise gained by bank professional services teams post-2008 when helping corporate treasuries in other sectors with the same challenges currently facing oil and gas companies.

A key point is that these teams are accustomed to working in close collaboration with each other, but also with other bank business units globally. This makes the initial step of process discovery and the implementation of any resulting road map quick and efficient. It also makes adapting to clients’ specific emphasis on desired benefits, which may vary from client to client and region to region, easier. For instance, oil and gas companies in MENA are currently less concerned with liquidity and more with bringing their processes and technology up to global best practice levels. By contrast, those in countries such as Australia are placing more emphasis on boosting their usage of internal liquidity, while also exploring shared service centres and bank-agnostic platforms such as SWIFT.

Realisable benefits

The scale and range of benefits available to oil and gas companies that undertake this process refinement can be exceptional. For example, the oil industry historically has had high levels of M&A activity, which can create major inefficiencies when it comes to on-boarding multiple existing bank accounts and relationships that might use multiple proprietary bank formats. If the corporation implements a bank agnostic standard such as SWIFT, then the efficient assimilation of acquisitions becomes straightforward and costs also fall significantly.

Such gains could be further enhanced if the company already has, or is implementing, an industry standard ERP system. For example, a number of national oil companies have recently implemented such ERP systems, but have yet to leverage their full potential by adopting SWIFT and XML standards. Alternatively, if the company has yet to implement an ERP system, the bank’s ERP specialists may be able to offer assistance with migrating disparate processes (perhaps still run independently at a local office level on spreadsheets) onto a new regional or global ERP system. In both cases, they can also assist clients’ ability to maximise the potential of their ERP systems by providing guidance on the various features and how best to use them.

The key differentiator is that this bank partnership support is doing far more than just offering short term cost savings, it is also positioning the enterprise for maximum efficiency and opportunity in the future.

Conclusion

Despite the pressure on oil and gas company treasuries to cut costs, simply negotiating fee holidays or discounts is just a short term fix that in the future may be heavily outweighed by the opportunity cost of not refining existing processes. A bank partner with a strong counterparty credit rating, long term commitment to cash and liquidity management, and a willingness to invest in technology and specialist expertise will offer strong long term value. Process enhancement is not a one off activity and a partner of this nature will be able to offer ongoing support with future iterative improvements.

Ultimately, there are just three simple steps to grasping this opportunity: identifying the key partner, ensuring they are committed to delivering the milestones in any customised roadmap they develop, and maximising the thought leadership aspect of the relationship to achieve an ongoing stream of process improvements in the future.