

E X C E R P T

IDC MarketScape: Worldwide Oil and Gas Professional Services 2012 Vendor Assessment

IDC Energy Insights: Worldwide Oil and Gas IT Strategies

VENDOR ASSESSMENT #EI237328

Jill Feblowitz Arthur Melet

IN THIS EXCERPT

The content for this excerpt was taken directly from the IDC MarketScape: Worldwide Oil and Gas Professional Services 2012 Vendor Assessment (Doc # EI237328). All or parts of the following sections are included in this excerpt: IDC Opinion, In This Study, Situation Overview, Future Outlook, Essential Guidance, and Synopsis. Also included is Figure 1.

IDC ENERGY INSIGHTS OPINION

The oil and gas (O&G) industry has always depended on an ecosystem of suppliers to find and produce oil and gas. Business process and IT-related projects are no exception. Recently, the landscape of professional services firms has changed with the introduction of labor and professional services firms from emerging economies. At the same time, professional services firms are starting to be involved in more core functions, such as development and maintenance of petro-technical applications and processing of technical data. This study assesses the capabilities and strategies of many of the leading professional services firms in serving the specific business and IT-related needs of the O&G industry. The aim is to provide O&G companies with an evaluation that can be used in selecting services firms to provide project-based or managed services. The report will be useful for IT and business executives involved in the procurement and management of professional services. According to our research:

- The global market for IT services for the O&G industry continues to grow at a healthy pace, especially in upstream.
- While the industry is under cost pressure, O&G companies put a premium on value delivered. The expectation is that the

professional services firm will engage and deliver but not need to be managed intensively.

- Global methodologies are preferred, but a firm must demonstrate that it has local resources to support marketing, sales, and distribution, especially in regions such as the Middle East and Africa (MEA).
- The ability for a professional services firm to attract, motivate, and retain talent is also paramount as the O&G companies expect expertise as well as stability from their partners in this talent-constrained industry.

IN THIS STUDY

This study assesses the capabilities and strategies of many of the leading professional services firms in serving the specific needs of the oil and gas industry. In particular, professional services firms will be evaluated according to success in providing offerings in the following segments of the O&G business:

- Upstream
- Midstream
- Energy trading and risk management

The aim is to provide O&G companies — integrated majors and supermajors, oilfield service (OFS) firms, national oil companies (NOCs), independent exploration and production (E&P) firms, and so forth — with an evaluation that can be used in selecting services firms to provide project-based or managed services. The report will be useful for executives involved in the procurement and management of professional services.

The evaluation is based on a comprehensive and rigorous framework — the IDC MarketScape model. Vendors are assessed relative to the criteria and one another. The analysis highlights the factors expected to be the most influential for success in the market in both the short and the long term. This assessment discusses both quantitative and qualitative characteristics that explain success in this market.

This study is composed of two sections: the first part involves a definition of the characteristics that IDC believes lead to success in providing services to the O&G industry. These characteristics are based on discussions with O&G companies and analyst observations of best practices in the industry. The second part of this study provides a visual presentation of multiple vendors into a single bubble-chart

format. This display concisely exhibits the observed and quantified scores of the reviewed vendors.

The document concludes with IDC's essential guidance to O&G companies on selection of vendors.

SITUATION OVERVIEW

Introduction

The O&G industry has always depended on an ecosystem of suppliers to find and produce oil and gas. Business process and IT-related projects are no exception. In the past decade, the industry has become more receptive to the use of professional services firms to provide whole IT or business functions. Typically, IT outsourcing has been for commodity services. The landscape of professional services firms has changed with the introduction of labor or professional services firms from emerging economies. At the same time, professional services firms are starting to be involved in more core functions, such as development and maintenance of petro-technical applications and processing of technical data.

Business process and IT-related projects are large, global, and complex. The industry has depended on professional services firms to deliver project-based services in the areas of business consulting, IT consulting, and systems integration.

Historically, the industry has been less receptive to outsourced or managed services. In part, this is because, with its global footprint, the industry can take advantage of this presence in low-cost regions to "insource." A good example is Shell and its internal back-office operations center in Malaysia, which provides some shared service functions to Shell. When the industry uses outsourced services, it is typically for noncore functions. Outsourcing of core functions, such as data management for proprietary data management of petro-technical applications, has not been a common practice due to concerns about security and protection of proprietary data.

However, companies such as BP have raised the visibility of outsourcing. According to a 2011 presentation by Dana Deasy to the World BPO/ITO Forum, BP sourced \$1.5 billion (65%) annual IT operating expenditures from 2009 to 2010. All services were included: help desk, networks, datacenters, application development, and application maintenance.

The Size of the Market

The market for professional services in the oil and gas industry is significant. According to the Worldwide Oil and Gas IT Spending Guide, the global market for IT services to the O&G industry totaled \$14.5 billion. IT services is expected to grow to \$18.4 billion in 2015 at a CAGR of 5.83%. The market for managed services is not included in this estimate.

Serving the Unique and Specific Needs of the Industry

The intent of this evaluation is to examine solutions and services that address the unique and specific needs of O&G. So, for example, "horizontal" managed services, such as desktop support for nontechnical applications, are not an area of focus. An implementation of SAP at an O&G company may be just like an implementation of SAP in another industry, but an implementation that includes ISU-Oil or Production Revenue Accounting (PRA), SAP's hydrocarbon accounting package, is specific to O&G.

To that end, IDC Energy Insights sees the following solutions as pertinent to the industry (see Table 1). These are solutions that should be in the professional services firms' portfolio of current or future offerings if that firm wants to be relevant to the industry's business objectives:

- Speeding time to first oil
- Reducing the costs, such as nonproductive time and capital project overruns
- Reducing risks, especially related to health, safety, and the environment
- Creating opportunities and reducing the risk of energy trading

FUTURE OUTLOOK

IDC MarketScape: Oil and Gas Professional Services Market Vendor Assessment

The IDC vendor assessment for the professional services market for oil and gas represents IDC's opinion on which providers are well positioned today through current capabilities and which providers are best positioned to gain market share over the next few years. Positioning in the upper right of the grid indicates that providers are well positioned to gain market share. For the purposes of analysis, IDC

divided potential key strategy measures for success into two primary categories: capabilities and strategies.

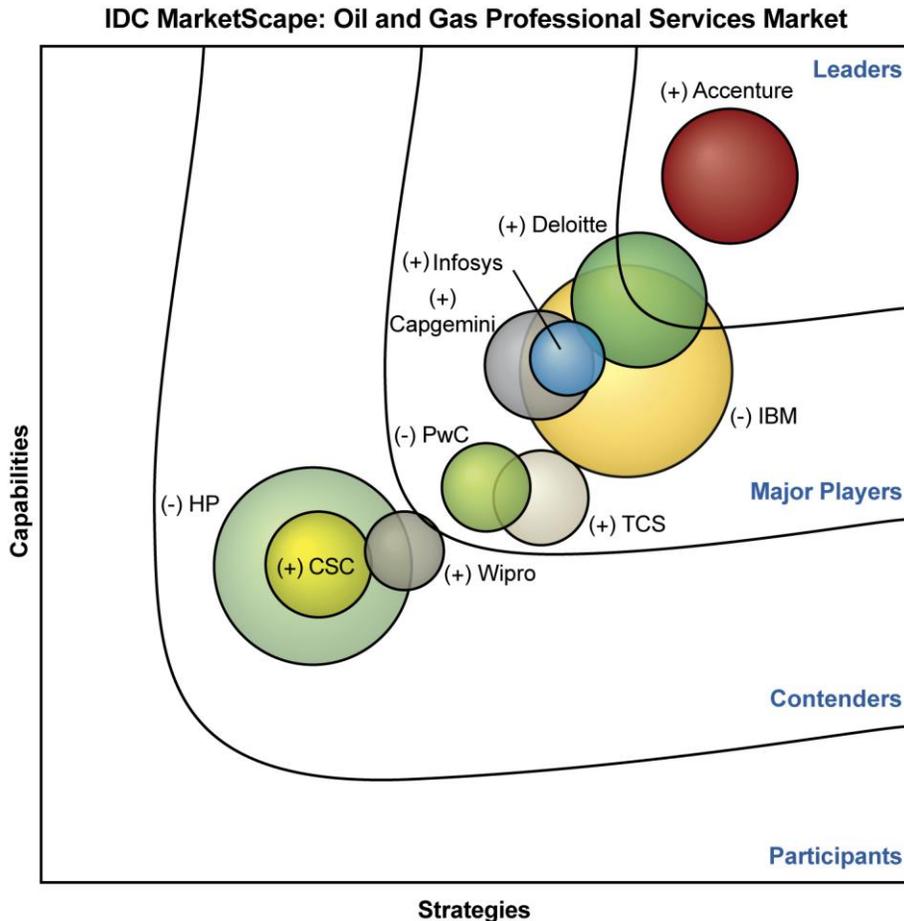
Positioning on the y-axis, or capabilities axis, reflects the provider's current capabilities and menu of services and how well aligned it is to customer needs. The capabilities category focuses on the capabilities of the company and services today, here and now. Under this category, IDC looks at how well a provider is building/delivering capabilities that enable it to execute its chosen strategy in the market.

Positioning on the x-axis, or strategies axis, indicates how well the provider's future strategy aligns with what customers will require in three to five years. The strategies category focuses on high-level strategic decisions and underlying assumptions about offerings, customer segments, business, and go-to-market plans for the future, in this case defined as the next three to five years. Under this category, analysts look at whether or not a provider's strategies in various areas are aligned with customer requirements (and spending) over a defined future time period.

Figure 1 shows each provider's position in the vendor assessment chart. A provider's market share specifically in O&G is indicated by the size of the bubble, and a (+), (-), or () icon indicates whether or not the provider is growing faster than, slower than, or even with, respectively, overall market growth.

FIGURE 1

IDC MarketScape: Worldwide Oil and Gas Professional Services Vendor Assessment



Vendor Summary Analysis

Deloitte — Deloitte Knows Oil and Gas

Deloitte is ranked as a Leader in this IDC MarketScape.

Deloitte is a heavyweight in the area of business consulting and has deep experience and expertise in consulting and advisory for oil and gas companies. Energy broadly represents Deloitte's fastest-growing industry segment, at 24%, in its FY12. The company provides advisory services across multiple competency areas including strategy and operations, technology, human capital, financial advisory, risk including security and privacy, tax advisory, and audit advisory.

IT and business consulting make up over 60% of the revenue of Deloitte's oil and gas practice. Deloitte is not an outsourcing-led model — a strategic choice based on its "trusted advisor" role with clients. However, the organization does provide certain IT outsourcing services in applications management and has SAP certification in the cloud. Deloitte's strongest technology capabilities in oil and gas are in IT strategy, security, energy trading and risk management, and consolidation of ERP systems.

Oil and gas is an important industry for Deloitte. About 80% of the FTEs dedicated to oil and gas are oil and gas subject matter experts. Of those SMEs, 5–10% have degrees in economics, petroleum engineering, geology, and geophysics; the rest have IT technical expertise in O&G. The company has added to its expertise through organic and inorganic growth. It has a mature geospatial-enabled petroleum information service populated with license, well, field, platform, and pipeline data to compete with other data providers. The acquisition of MarketPoint brought energy market simulation and price forecasting to Deloitte. AJM Deloitte was created with the acquisition of Canadian-based AJM Petroleum Consultants in 2010.

AJM Deloitte offers engineering/technical oil and gas advisory services to upstream companies, getting closer to companies like Schlumberger and Halliburton. For enhanced oil recovery, the company is able to provide reservoir engineering and simulation support for bitumen and ultra-heavy oil, low permeability oil and gas, shale gas, gas condensate, and coalbed methane. For production optimization, AJM Deloitte offers a range of analytics methods to assess a reservoir, including reservoir characterization, production forecasting, and plant feasibility.

Deloitte is a federated network with strong local practices and global coordination. The company has 13 oil and gas centers of excellence in all the major oil and gas areas. North America and Europe, the Middle East, and Africa (EMEA) are regions where Deloitte does most of its oil and gas business, but since these clients have a global footprint, Deloitte's service delivery is global, with engagements sometimes playing out across more than 30 geographies, including countries in APAC and Latin America.

One of the benefits of a federated network lies in its strong local presence. One of the challenges of a federated network is to be able to establish standards of delivery, access to O&G knowledge, tools, methods, and repeatable solutions that can be deployed globally. To address this, the company has put together "nerve centers" that are virtual networks to facilitate its internal knowledge management structure. Deloitte's O&G nerve center is intended to support service

delivery teams by sourcing internal thought leadership, subject matter experts, and industry information.

Recognizing that talent is where winners and losers will be defined in business consulting, Deloitte has a unique approach to its employee strategy. Short- and long-term assignments are designed to transfer skills and capabilities, develop globally minded leaders, and better serve cross-border clients. For O&G, Deloitte has targeted global deployments across key O&G markets. The company has deployed talent from the United States and Australia to China to New Zealand, from Australia to Southeast Asia, and from CIS to Latin America. The company has a "lattice" organization where employees no longer move up and out but move more throughout the organization as desire and demand require.

Opportunities/Challenges

Deloitte has significant depth and a long history in the O&G industry. Deloitte advisory capabilities complement its implementation capabilities across technology, people, and process. The range of services may be appealing to O&G companies looking for a full-service organization.

The challenge for companies offering a wide range of services is having the resources and focus to support them. With the acquisition of AJM, Deloitte is entering the territory of the OFS companies. It will need to be able to compete with OFS and O&G companies for the technical/engineering expertise to develop, sell, and deliver its solutions in this area.

ESSENTIAL GUIDANCE

Actions to Consider

For Oil and Gas Companies

- Use this IDC MarketScape to assess service providers on their ability to deliver O&G-specific solutions or services. If you are looking for generic services that can apply to any industry, this IDC MarketScape will not be as useful. In addition, note that the weightings used in this study may not apply to your companies' priorities and requirements as they were developed with a range of buyers in mind. For example, global reach may not be as important to O&G companies that only operate in one or two regions.
- Technical complexity in the O&G sector has increased and will continue to do so in the next few years with the introduction of unconventional resources and the further digitization of the industry. The ability to extract value from seismic drilling and

production data is a must for achieving competitive edge. As a result, O&G companies need to make sure to work with professional services firms that will be able to deal with these new complex challenges. Success will continue to hinge on O&G expertise, the ability to retain the best talent, and a well-developed partnership strategy (with specialized companies such as telecom operators or oilfield service providers).

- Price is always an important point to look at, but when choosing a professional, attention should be really focused on the value that the professional services firm can bring to the O&G company. Even though most professional services firms can successfully deliver outsourced services to their clients, only the leading companies will be able to bring significant O&G-specific expertise to the table and drive innovation for their customers.
- Several of the professional services firms have had success with nontraditional pricing arrangements. This would be a good time to explore gain share or business outcome-based contracts if you have an appetite for these types of arrangements.
- Be able to articulate your expectations about the mix of resources expected throughout the projects. The mix of resources may change as projects move from one phase to another.

For Service Providers

- Use this IDC MarketScape to understand where you need to target your efforts going forward.
- The talent war is still very highly visible, and O&G companies want to be confident that they will have consistent access to expert resources that understand the technical and commercial aspects of the business.
- O&G companies are large and complex. Understand that it may take longer than you might expect for these organizations to gain consensus at various points in a project. Carefully plan availability of expert resources to accommodate companies that may need more time to execute a project.

Synopsis

This IDC Energy Insights report uses the IDC MarketScape model to provide an assessment of a number of providers participating in the worldwide oil and gas professional services market. The IDC MarketScape is an evaluation based on a comprehensive framework and a set of parameters that assess providers relative to one another

and to those factors expected to be most conducive to success in a given market during both the short term and the long term.

According to Jill Feblowitz, vice president, IDC Energy Insights, "The oil and gas industry is looking to its professional services partners to bring innovation. Professional services firms with a strong focus on the O&G vertical and a strategic plan in line with the future needs of their clients are Leaders. They have a local presence in most of the O&G capitals and the ability to attract and retain O&G experts in this talent-constrained market."

Copyright Notice

Copyright 2012 IDC Energy Insights. Reproduction without written permission is completely forbidden. External Publication of IDC Energy Insights Information and Data: Any IDC Energy Insights information that is to be used in advertising, press releases, or promotional materials requires prior written approval from the appropriate IDC Energy Insights Vice President. A draft of the proposed document should accompany any such request. IDC Energy Insights reserves the right to deny approval of external usage for any reason.