MAXIMIZING VALUE: IT TRENDS AT OIL COMPANIES

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The morning after a good party, everyone needs a quick hangover fix. The oil and industry is no different. After years of spending hard-earned cash and a disproportionate amount of capital expenditures on revolutionary technologies, it is poised for an introspective pause.

The oil and gas industry is in the business of finding and producing hydrocarbons. It is a “business” driven by fundamental economic principles, with accountability to stakeholders. The broad trends for the industry in 2003 will be driven by these fundamental basics of business, rather than hyped-up expectations.

IT trends at Independents will be consequences of business considerations and will focus on maximizing the value of past, present and future IT expenditures.

Return to Fundamentals in Purchase Decisions

Oil companies will be focused on short-term financial justification of IT investments, and investments that can demonstrate quick payback will be chosen over those that cannot. At the same time, previous investments in major systems will be scrutinized, and implementers will be increasingly asked to prove that the systems have delivered on their promise.

Enterprises will delegate purchasing decisions to their business units rather than the IT departments with financial and business principles playing a strong part in the ROI measurement. Focus will remain on short-term financial justification of technology investments -- ROI, cost, value, risk, and flexibility. Cost, though just one factor, will be the leading consideration.

Offshore Outsourcing for Cost Containment

Thanks to a tough economic environment, there will be significant growth in the use of low-cost, high quality services based out of India, for not only IT-related services but also for outsourcing business processes, including highly technical tasks.

For example, an Indian firm, Scicom, already provides high-end, technical software maintenance and development services to major players in the industry, at a substantially lower costs. Another firm, Scandent, has developed Project Administrative Support Services, an IT-enabled service, that has the ability to improve schedule and cost performance in capital projects.

The low-cost advantages of global IT services firms will put increasing pressure on traditional suppliers to the industry, thereby significantly reducing industry IT expenditures.

Focus on Maximizing Current Infrastructure and Solutions

After five years of spending wildly on new, exciting technologies, oil companies are searching for a way to make all the equipment, software and infrastructure work together- squeeze more out of existing infrastructure, with no need to buy new equipment or solutions.

An example of waste in hardware expenditures is highlighted by IBM data that shows that server utilization is a mere 40 percent of the total installed capacity. Up to 60 percent of an email server's total power can potentially be exploited to perform other tasks, like intranet hosting or even printing.

Another example of waste is in the IT services arena. A company pays $1 per megabyte to acquire hard disk storage, but must cough up an additional $8 per megabyte each year for IT services to manage that storage, according to a study by Strategic Research, a technology research firm. Servers are no different: a handful of Hewlett-Packard servers cost less than $50,000, but a full-time administrator to keep those machines running around the clock costs $75,000 per year.

In 2003, different storage systems, servers, and network devices will begin to be managed through a central console based on virtualization. Virtualization reduces capital expenditures (no need to buy new equipment) and the cost of managing IT equipment.

Connecting a Mobile Work Force and Global Suppliers

Influenced by a very real post-Sept. 11 desire to reduce business travel, the trend will continue, supported by improving networks and devices, and increasing use of virtual meetings, video conferencing, and advanced web-based collaboration techniques and solutions.

Demand For Improved Security

The frequency of both damaging cyber-attacks and a flood of high-profile security holes in common products, with a strong focus on Microsoft offerings, has increased awareness of security. Part of the fallout from this has been that Microsoft has now publicly stated that security will take priority over new functions in future software developments.

Both vendors and their client firms will continue fortifying security at the operating system and application level so as to build security into the core of IT infrastructure. Network security technologies, such as firewalls, are improving rapidly due to their strong existing demand and growing installed base.

Oilfield Service Companies Take on Greater Services Role

Industry software suppliers will play a more significant role in consulting and implementation services, which will put more pressure on traditional service providers.

Oil companies are increasingly looking to better leverage their asset base to optimize performance in a market characterized by tight capital budgets. This not only includes managing field assets, but also a more comprehensive view of all assets from facilities to IT to equipment to employees to knowledge. Oil companies will look for real-time information flow of production metrics, rapid, pro-active responses to assets that may fail, and more strategic decisions on how assets will be serviced.

Oilfield Service Companies looking for additional sources of revenue are expanding product and service offerings and accepting more responsibility for their customer’s success by supporting those assets.

Increased Vendor Consolidation

Oil companies are under assault from hordes of software and other technology companies. It's time for a shakeout. Consolidation of vendors will continue, resulting in disappearance of at least one major player from most segments. The tech industry competition landscape will develop an oligopoly situation with a few dominating vendors.

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