LEVVEL RESEARCH

A Guide to Contract Management for the Oil and Gas Industry

Advanced Contract Lifecycle Management Software for the Energy Sector

2019 | Featuring Insights On...

» **Current Contract Management Trends in the Oil and Gas Industry**

» **Contract Lifecycle Management Software Features and Functionality**

» **A Leading S2S Provider for Oil and Gas Companies**

Underwritten in Part By

Oildex

Contents

Introduction

The oil and gas industry comprises a vast, complex network of operators, suppliers, processors, refiners, and retailers. The industry is often volatile and unpredictable due to its continual boom and bust cycles, a heavy reliance on working capital, the emergence of renewable energy alternatives, and the changing demands of various international and domestic legislation, in addition to contractual demands in constant flux.

In this environment, it is necessary to maximize profitability through savings opportunities in back-office operations. One under-utilized opportunity for process improvement is contract management, where the industry has unique and demanding needs, including a high level of compliance monitoring and seamless integration into a company's complete Source-to-Settle (S2S) process.

Traditional contract management processes involve cumbersome contract creation methods, inconsistency among agreements, and limited visibility. By contrast, automated Contract Lifecycle Management (CLM) streamlines the full S2S lifecycle, helping companies maintain control over unnecessary spend, mitigate contract risk, and reduce processing costs.

This whitepaper looks at current market trends in contract management and provides a high-level overview of leading CLM software solution features and services that are best suited for the oil and gas industry.

The Current Oil and Gas Landscape

The structure of the oil and gas industry is extensive and complicated. Across the industry, companies have differing needs and spend profiles:

» The upstream sector finds and produces crude oil and natural gas. It is the beginning of the industry's commodity supply chain. This part of the industry is focused on exploration, drilling and completion, and production.

» The midstream portion is the link between the sources of crude oil and natural gas and population centers. This industry segment processes, stores, markets, and transports commodities such as crude oil and natural gas.

» The downstream industry includes oil refineries, petrochemical plants, petroleum product distributors, and natural gas distribution companies. The downstream industry is involved with delivering consumables such as gasoline, diesel, jet fuel, asphalt, plastics, fertilizers, and propane to the end consumer.

Within the three main industry segments, there can be further differentiation. For example, upstream companies have different spend profiles depending on whether they are involved in the exploration, drilling and completion, or production phase.

All industry players must account for operator spend and lease operating expenses. Operator spend mostly consists of capital expenditure (e.g., drilling equipment, oil well properties, etc.). Lease operating expenses are the costs of maintaining and operating property and equipment after the initial cost of drilling a well.

High capital and operating costs lead oil and gas companies to contract with a broad range of suppliers varying in size and sophistication. Thus, contracts must be optimized for various scenarios and partnerships with a high number of variables and moving parts, as well as be adaptable to fluctuations inherent to the volatile market.

Upstream oil and gas companies face the greatest difficulty because most of their spend is strategic and their contracts vary greatly. Many onshore operators create master service agreements (MSAs) with their service providers.

These MSAs are typically "evergreen," meaning they automatically renew after their expiry date until one of the parties defaults or elects to terminate the contract. A critical aspect to managing an evergreen MSA is ensuring that its terms remain relevant for the duration of the contract.

Operators then complete individual well packages through statements of work (SoWs) that typically have daily rates of $200,000 to $300,000 per rig and last 12 to 18 months, or through informal procurement methods (commonly known as "three bids and a buy") when the value of an awarded contract is less than $150,000.

Adding to the complexity of the upstream industry's contracts is the hierarchical structure of their agreements. An operator may need to reference several SoWs or rate sheets, which provide information on tariffs and standard rates mandated by various governmental organizations across different and occasionally overlapping geographic applicability.

For large upstream companies, such as supermajors or offshore exploration and production (E&P) companies, contracts between buyers and suppliers tend to involve longer timeframes, higher complexity, and larger investment amounts than in other industry segments. For example, the lifetime value of contracts for an offshore oil rig could be $2 billion.

The industry is trending toward performance-based service level agreements (SLAs) over delivery-based production sharing contracts, further complicating contracts. These large contracts are often focused on the outcome, rather than the specifics of who or what is on the ground, or the delivery of labor.
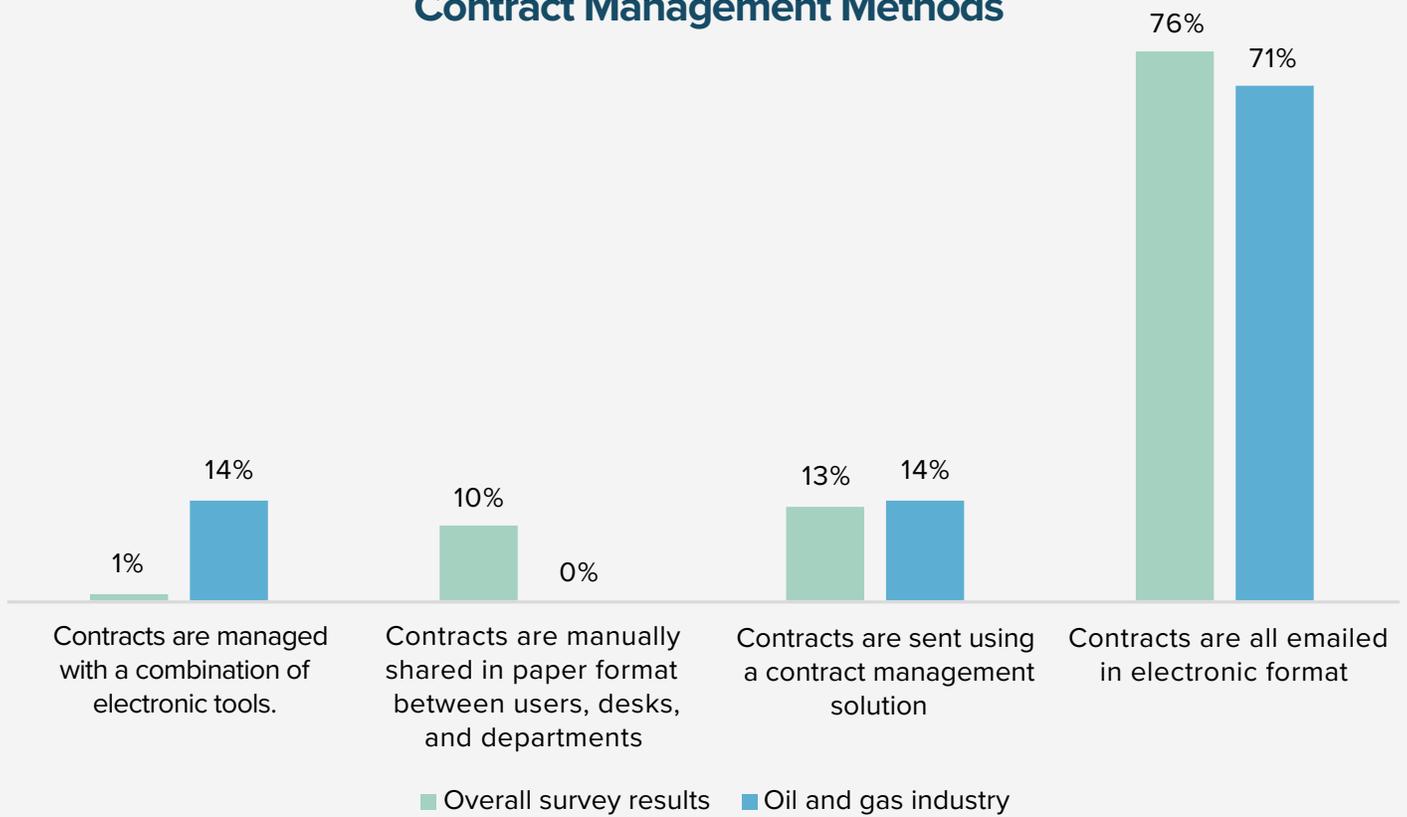
While upstream companies have the most potential to benefit from reducing the overhead cost of their complex contracts, all oil and gas companies can limit spend and optimize profitability through CLM.

Nevertheless, few industry players use an automated contract solution. Levvel Research has found that when compared to other industries, oil and gas has a heavier focus on combining electronic tools to create a piecemeal solution. Most contracts are handled through email in an electronic format, see Figure 1. This manual approach results in inefficiencies in communication and management.

FIGURE 1

Contract Management Methods

	Overall survey results	Oil and gas industry
Contracts are managed with a combination of electronic tools.	1%	14%
Contracts are manually shared in paper format between users, desks, and departments	10%	0%
Contracts are sent using a contract management solution	13%	14%
Contracts are all emailed in electronic format	76%	71%

**The Majority of Contracts Are Emailed in Electronic Formats**
"How are contracts typically passed back and forth for authoring, approval, etc.?"

Oil and gas contract creation is split among four methods, but contract creation through a CLM software solution is the least used. CLM contract creation for oil and gas companies lags behind overall market trends at 14 percent versus 19 percent. More than twice as many respondents in oil and gas as in other industries indicated that they have several people collaborate to create contracts, see Figure 2.

FIGURE 2

Contract Authoring Methods

Overal survey results — Oil and gas industry
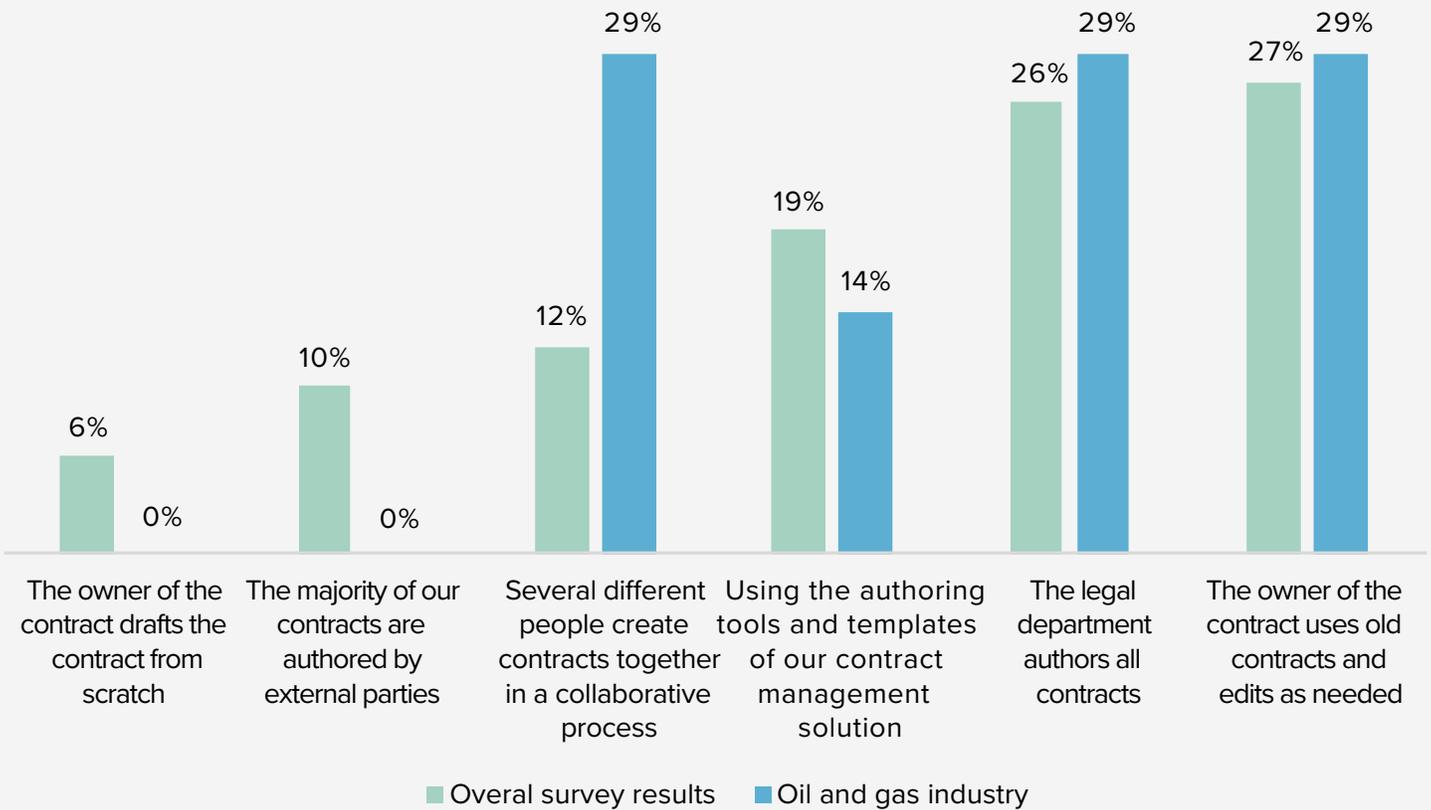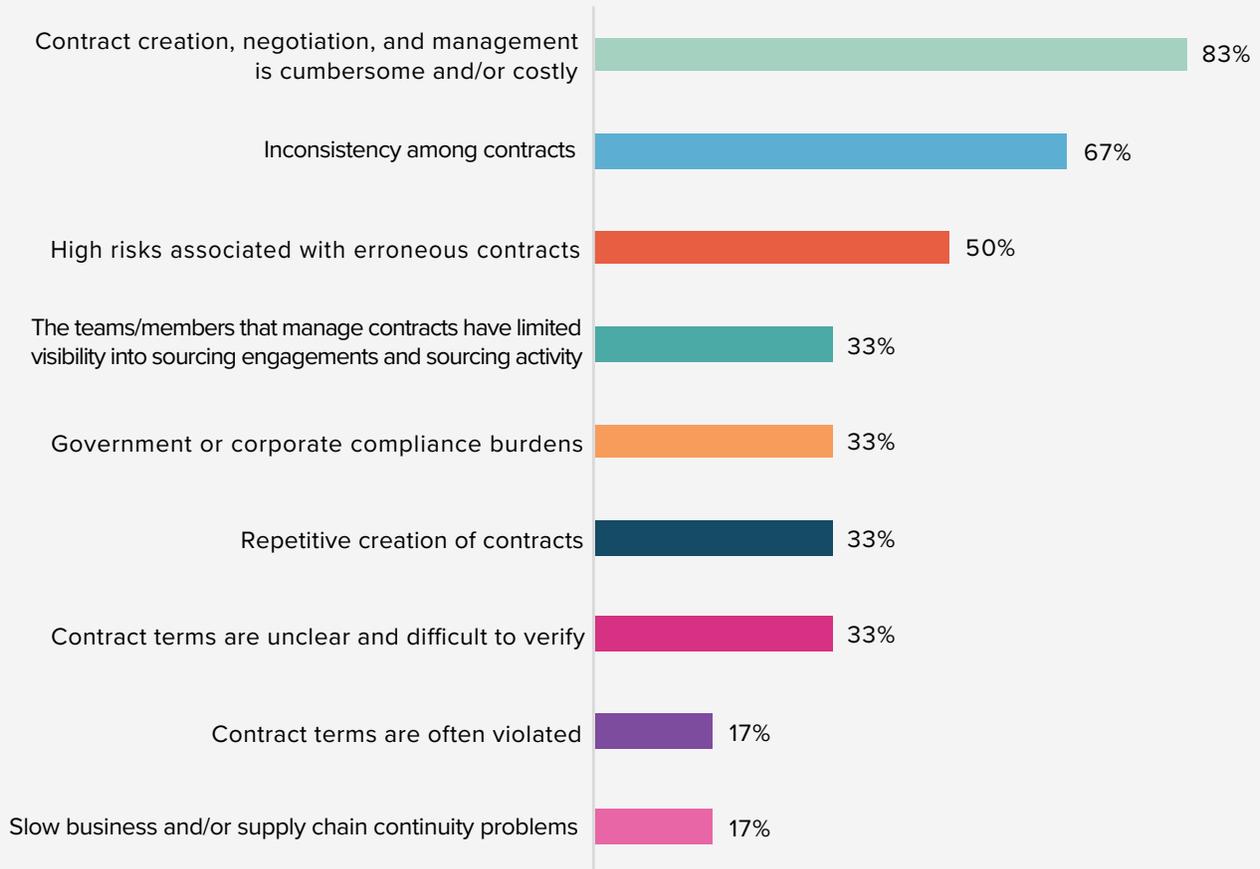
CLM Tools Are Underused for Contract Authoring
"How does your organization typically create/draft/author new contracts?"

This lag in CLM software utilization for contract authoring is reflected in the industry's pain points, the largest of which is contract creation, see Figure 3.

FIGURE 3

Contract Management Pain Points in the Oil and Gas Industry

Pain Point	Percentage
Contract creation, negotiation, and management is cumbersome and/or costly	83%
Inconsistency among contracts	67%
High risks associated with erroneous contracts	50%
The teams/members that manage contracts have limited visibility into sourcing engagements and sourcing activity	33%
Government or corporate compliance burdens	33%
Repetitive creation of contracts	33%
Contract terms are unclear and difficult to verify	33%
Contract terms are often violated	17%
Slow business and/or supply chain continuity problems	17%

The Oil and Gas Industry's Biggest Contract Management Pain Point Is Contract Creation
"What business challenges do you face in regard to contract management?"

When compared with other industries, the oil and gas sector reported similarly ranked pain points, but contract creation was by far the biggest challenge. Contract creation in oil and gas is prolonged and disorderly, since the nature of the business involves many touches—by other oil companies, governmental regulators, and individuals. The negotiation and management processes must accommodate multiple parties, many contracts, and complex demands. They also must comply with industry-specific government regulations. Other major concerns are inconsistency among contracts and a high risk of erroneous contracts.

Manual contract management methods, in which various teams use individual methods to manage contracts, are prone to inefficiency, error, and unnecessary risks to their supply chain and data management.
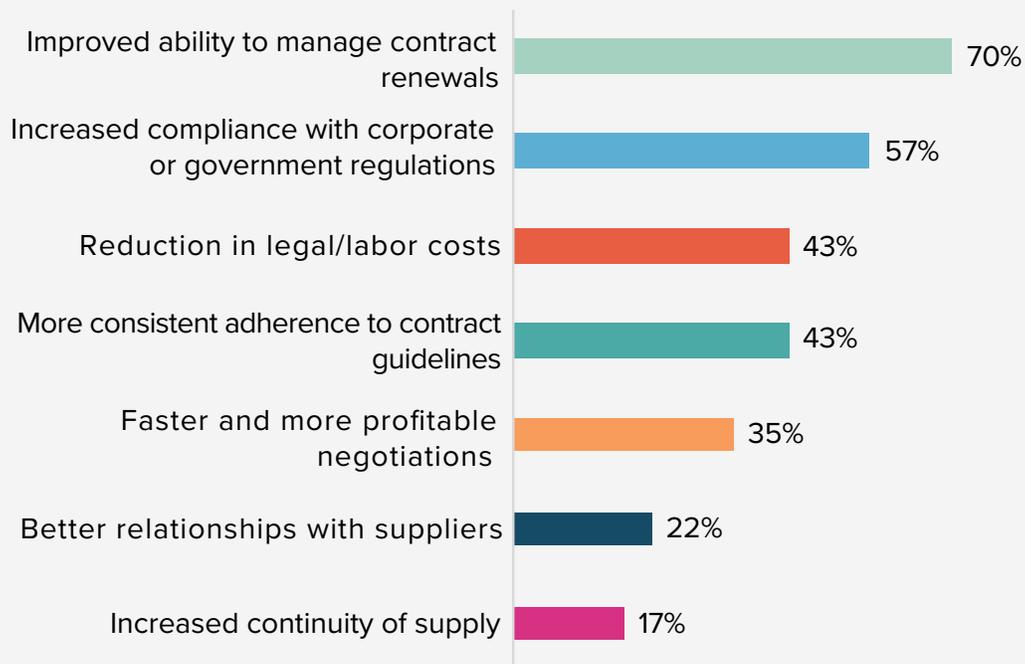
Cloud-based, collaborative contract lifecycle management, by contrast, solves most of the pain points experience in the contract creation process. CLM compiles business documents into a centralized, unified repository, resulting in critical consistency between contracts and visibility for all stakeholders. Automation makes standardization easier to enforce, results in increased compliance, and allows for more proactive contract management.

Automated contract management solutions reduce the overall complexity within the S2S process, allowing companies to realize cost savings, optimize the use of negotiated terms, and build and maintain better relationships with suppliers through increased visibility.

The most commonly reported benefit of implementing a CLM software is an improved ability to manage contract renewals, see Figure 4.

FIGURE 4

CLM Solution Benefits

Benefit	Percentage
Improved ability to manage contract renewals	70%
Increased compliance with corporate or government regulations	57%
Reduction in legal/labor costs	43%
More consistent adherence to contract guidelines	43%
Faster and more profitable negotiations	35%
Better relationships with suppliers	22%
Increased continuity of supply	17%

The Greatest Benefit from a CLM software solution Is the Improved Ability to Manage Contract Renewals
"Since implementing a contract management solution, what benefits have you achieved? (Check all that apply)"

Contract renewals are both frequent and crucial in the industry, as legislation and regulations change, prices change, and resources are controlled by multiple entities. Well-managed contract renewals result in significant cost savings, reduced risk, and better business partnerships. Additionally, better compliance adherence and fewer oversights prevent costly penalties and lawsuits.

The following section delves into common features and functionality of leading CLM solutions.

Key Features of Leading Contract Lifecycle Management Solutions

Implementing an automated contract lifecycle management solution drives efficiency and profitability in oil and gas companies. Leading contract lifecycle management solution providers offer the following essential capabilities.

Contract Requests

This function enables requests for contracts to be easily created by "the field." Predefined workflows ensure that these requests are routed for action to the correct subject matter expert within procurement/the supply chain. This contract request capability streamlines the request process and provides improved visibility for all internal stakeholders.

Creation and Authoring

Template repositories with customizable documents streamline the authoring process and ensure contract compliance. Templates can change according to the type of contract, the category of spend, the service location, the supplier, and other parameters. Users with the appropriate rights can also create original contracts or recycle and modify old contracts from an archive. Leading solutions include a clause library from which the author can pull pre-approved legal text to assemble a compliant contract.

Negotiation and Approval Workflows

CLM software facilitates editing, revision tracking, commenting, change requests, and contract rejection or approval. Approval workflows can be constructed according to contract type, price, area, and dollar amount thresholds, and can go through both administrative and legal review. Negotiation and approval processes with external parties involve many of the same collaboration tools.

Tracking and Monitoring

After all parties approve the contract, CLM software continuously monitors the contract throughout its lifecycle. The software ensures negotiated terms are fulfilled and deadlines are met, and it notifies users of upcoming expirations to prevent contract lapses. Many solutions also offer auto-renewal that is adjustable according to the organization's policies (e.g., a user can designate the number of times the contract will renew automatically before it expires).

Storage

CLM software solutions provide a secure, central repository with extensive search features that allow users to retrieve active and inactive contracts for review. This includes the ability to retain a copy of contract revisions and attachments with a complete electronic audit trail of all user activities. Leading solutions also store and maintain noncontract documents (e.g., corporate organizational documents).

Reporting and Analytics

This component includes reporting and auditing capabilities that optimize existing contract processes. Solutions evaluate data from the entire lifecycle of a contract to determine trends in contract compliance, costs, duration, and other key performance indicators (KPIs). Some solutions also offer data discovery tools that allow the business to analyze existing business agreements, such as recurring purchase orders or sourcing events, and transform them into more cost-efficient contract agreements. CLM reporting typically includes prepackaged report types for common contract measurements, as well as configurable dashboards and graphics. Standard report types include CLM process parameters such as contract types, contract lifecycle history, and user involvement.

Industry-Specific Features of Leading Contract Lifecycle Management Solutions

There are important features specific to the oil and gas industry; they include compliance and integration with the entire Source-to-Settle (S2S) process. An overview of these specialized industry functions is given below.

Regulatory Compliance and Risk Mitigation

More so than other industries, oil and gas must meet a multitude of compliance requirements such as strict safety rules. Additionally, companies frequently face remediation demands to address environmental concerns.

Real-time transactional compliance functionality means that an automated tool can monitor compliance obligations and company activity from one streamlined module. Being alerted to and addressing compliance issues in real time prevents additional fees or penalties.

An Integrated Solution

Companies looking to implement a contract lifecycle management solution should ensure that their selected tool is compatible with their current systems and can be integrated into their networks. While individual CLM technology platforms offer helpful functionality, Levvel Research recommends organizations take a holistic approach to their back-office by evaluating comprehensive S2S software suites. A single solution provider for an oil or gas organization's S2S process would lead to full realization of CLM benefits. Leading solution providers seamlessly integrate the process of evaluating, alerting, resolving, and processing digital oilfield tickets and invoices. Integrated solutions mean that oil and gas companies can optimize their price books, where they can ensure not only that the terms and conditions of a contract are met, but also that there is no unnecessary spend or noncompliance.

Conclusion

In the oil and gas industry, companies must consider a variety of complex factors as they manage their contracts with their operations, suppliers, and third-party businesses. They must be aware of industry-specific regulations such as environmental guidelines, geographic legislation, and supplier qualification. Because oil and gas contracts are particularly complex, and because the industry is fraught with regulatory burdens and boom and bust cycles, efficient and effective contract management is a significant challenge.

Based on Levvel Research survey data analysis and industry research, it is clear that leveraging automated contract lifecycle management solutions can minimize unwanted spend and increase profitability. Oil and gas companies should look to use a centralized and collaborative contract management solution that is fully integrated into a company's full Source-to-Settle process.

About the Sponsor

Oildex is transforming the way the oil and gas industry connects, collaborates, and automates. More than 1,100 operators, 74,000 service providers, dozens of financial institutions, and millions of mineral rights owners use the Oildex Network to seamlessly and securely collaborate with their business partners, automate critical business processes, eliminate the high cost and errors associated with paper-handling, and obtain access to key data to make more informed business decisions.

Oildex was recently acquired by Drillinginfo, the leader in delivering business-critical insights to the energy, power, and commodities markets. Headquartered in Austin, TX, Drillinginfo serves over 3,500 companies and has approximately 900 employees in locations across the globe.

Learn more about Oildex at https://www.oildex.com

About Levvel Research

Levvel Research, formerly PayStream Advisors, is a research and advisory firm that operates within the IT consulting company, Levvel. Levvel Research is focused on many areas of innovative technology, including business process automation, DevOps, emerging payment technologies, full-stack software development, mobile application development, cloud infrastructure, and content publishing automation. Levvel Research's team of experts provide targeted research content to address the changing technology and business process needs of competitive organizations across a range of verticals. In short, Levvel Research is dedicated to maximizing returns and minimizing risks associated with technology investment. Levvel Research's reports, white papers, webinars, and tools are available free of charge at www.levvel.io

DISCLAIMER