

EVALUESERVE



# En route to Energy Transition

Changing  
dynamics of oil  
field services  
players



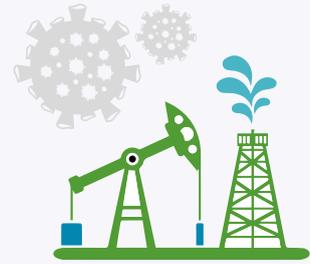
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## Overview of Oil Field Services Market

The oil field services (OFS) business suffered a double whammy in 2020 – depleting oil prices as well as COVID-19 – both of which led to deep cuts in capital expenditure by their customers and a negative impact on their profit margins.



OFS companies have been navigating stormy waters since the **2014** oil price crash, which resulted in an almost **\$450 billion** reduction in global expenditure to date. Their margins have been depleting since.

OFS companies operate across the E&P value chain and are involved in providing integrated-to-niche services. Many small and mid-sized OFS players offer assets, equipment, and services in various combinations.

**In 2021**, the segment's struggles were reduced to some extent with the rollout of COVID-19 vaccines and the unlocking of economies, accompanied by an increase in oil prices. However, the second wave of COVID-19 in some countries, along with expectations of a third wave, overshadow the positive outlook for the remaining part of this year as well as the next.



As companies grapple with **challenges related to oil prices, flattening demand, reduced capex, etc.**, new issues – **environmental sustainability** and **climate change** – have taken the center stage due to the pandemic. OFS businesses are also facing strong competition from engineering, procurement, and construction (EPC) companies that offer OFS. At present, E&P companies are focusing on meeting net-zero goals and evolving their portfolios by diversifying into low-carbon cleantech. This is pushing OFS players in the same direction. How OFS companies respond to these changing business dynamics will shape their future.

This paper will scan different facets related to OFS players – *how they are progressing towards an inevitable change, what challenges they could face when implementing transformation, how their future business model will be shaped, and how Evalueserve can assist them.*

## Net Zero Goals and Impact on OFS Segment

Commitment to reducing carbon emissions is one of the most relevant markers of progress towards energy transition.

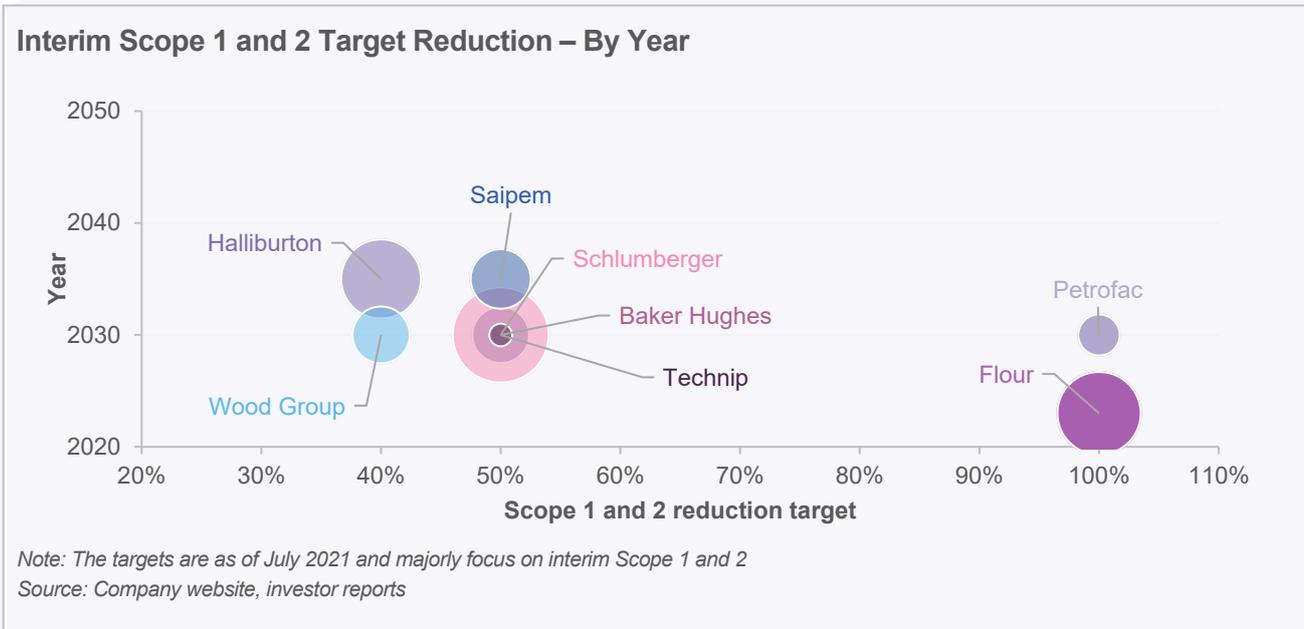


Along with countries that have committed to working towards fulfilling the provisions of the Paris Agreement, many oil and gas players have stated a target of achieving net carbon neutrality within a stipulated timeframe.

The fact that E&P companies are working aggressively towards meeting carbon emissions targets has created a need for OFS players to shadow their actions, lest they lose business opportunities. Moreover, investors' and operators' focus on working with environmentally sustainable solutions will drive change in the OFS segment.

Only a handful of big names have announced carbon emission goals, while smaller firms do not have concrete targets yet. Even among those who have stated targets, most are talking only about Scope 1 and Scope 2 emissions. However, there are some companies that are coming up with net zero and Scope 3 emission targets.

The graph below shows players and their Scope 1 and 2 targets



A **company’s portfolio** and **the base year** are critical to understanding how well or how large its emissions reduction target is. However, the nature of companies in OFS varies widely in terms of offerings and the value chain segment they operate in. This makes it difficult to compare these players and their carbon emissions targets. Moreover, the varying base year for these targets makes comparison against each other further challenging.

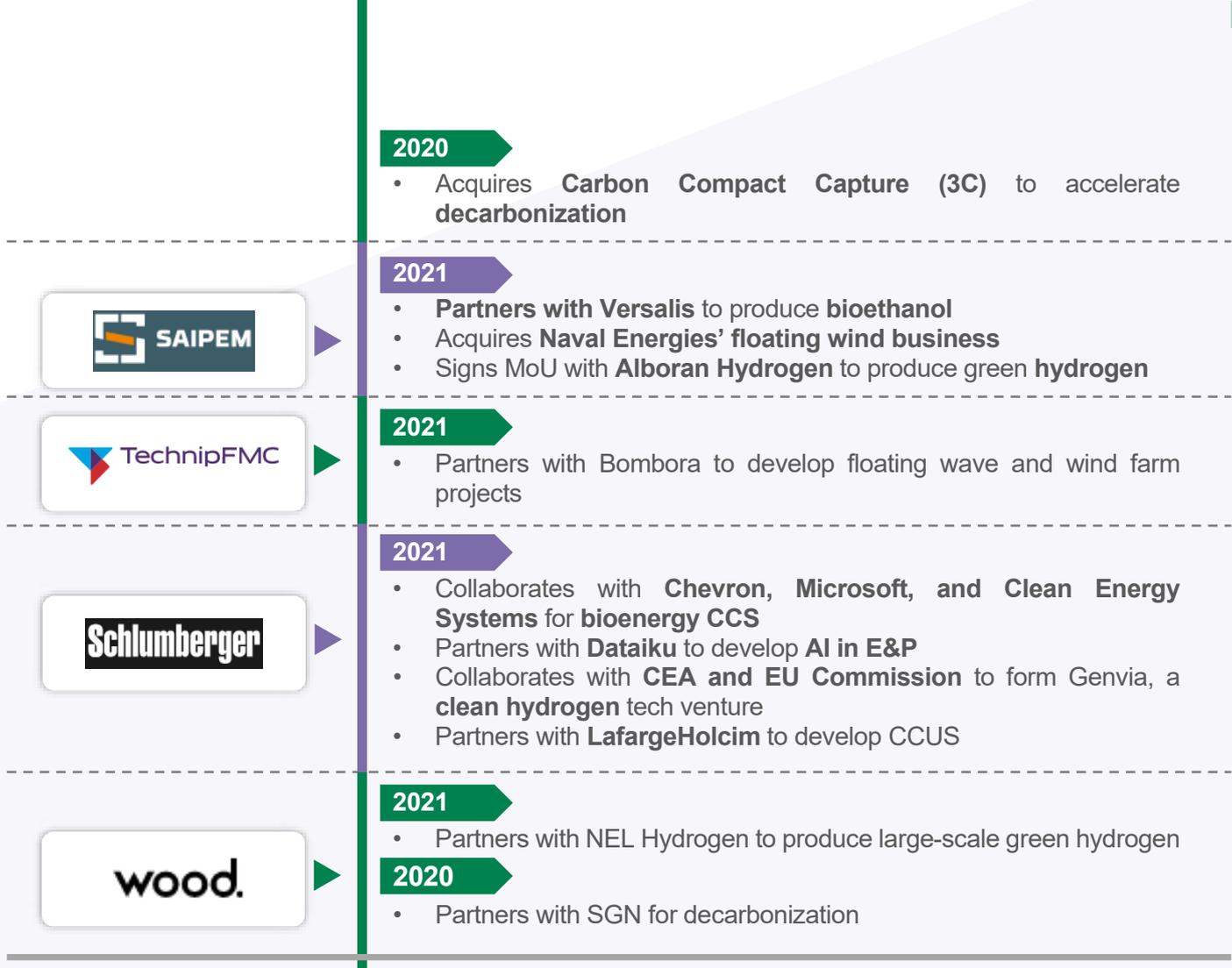
## Actions and Near-term Developments

As the need for energy transition and emissions control goes up, companies have started taking proactive steps to remain competitive. Top companies are taking steps, such as partnerships and acquisitions, of which few are listed below.

The following deals highlight energy transition initiatives of key companies:

2021

- Collaborates with **Samsung Engineering** for **CCUS and Hydrogen projects**
- Invests in **Electrochea** (in **bio-methanation**) to expand its carbon utilization portfolio
- Collaborates with **Borg CO2** for **CCS** for Norway
- Partners with **Air Products** for **Global Hydrogen** projects
- Signs agreement with **Fortum** to purchase **renewable energy** for Russian operations
- Collaborates with **Bloom Energy** on **efficient power and hydrogen solutions**



These actions taken by companies are in line with their competencies.



**For example,** SLB's move into geothermal energy is based on its experience in exploration activities, while Baker Hughes' 3C acquisition is based on its experience in the rotating business. Similarly, Subsea 7 is utilizing its offshore capabilities to develop offshore wind farms.

Thus, bigger players with operations across the E&P value chain are tapping into portfolio diversification (along with other steps) to address the need for transition. **Most of these players are focusing on low carbon services such as carbon capture utilization and storage (CCUS), hydrogen, and geothermal, and not directly entering wind and solar generation projects due to capability gaps.** In contrast, EPC players (such as Technip and Wood) that already have a presence in these segments have

wider access and the capability network to grow in the renewables space. These actions are enabling companies to change the way they are perceived. For instance, Baker Hughes is coming up as a technology company and is not just being viewed as an OFS provider. TechnipFMC has increased focus on energy transition after spinning off Technip Energies. It is evident that companies are strategizing on effective moves, and we see this trend continuing in the coming months.

**On the other hand,** mid-range players are majorly focusing on and developing **efficiency** and **digitization** within their existing portfolios. For example, Transocean has invested in automated drilling control, hybrid power systems, smart analytics, and other technology for emissions control and efficiency. This shows that not all players will go the expansion / diversification way and may continue to develop and compete with what they have, at least over a short-term period.

However, it is still too early to conclude how mid-range OFS players will set and deliver on their targets, or how they will change, as their overall business is undergoing price volatility, leading to cost-consciousness. Several OFS businesses have already filed for bankruptcy and we may see many succumbing to the pressure. Such players will either perish or be acquired by larger firms, leading them to convert into sub-contractors under the umbrella of larger players.

## Transition Challenges

As companies change their strategies and portfolios, a new set of challenges (such as below) might emerge.

### Investment Hurdles

- Pandemic led to investment challenges and losses
- **Capex reduction** by customers led to **severe cash crunch**
- **Investors** seeking **ESG-sensitive** investments
- Risk of **small players** being left high and dry
- Investment will be the key to **develop** and **diversify**

### Digitization and Efficiency Challenges

- Even after winning investments, **efficiency and digitization to remain difficult targets**
- Highly **effective** and **low-cost solutions** needed
- **Intense competition** from established traditional digitization players (ABB, Emerson, etc.)

### Diversification Challenges

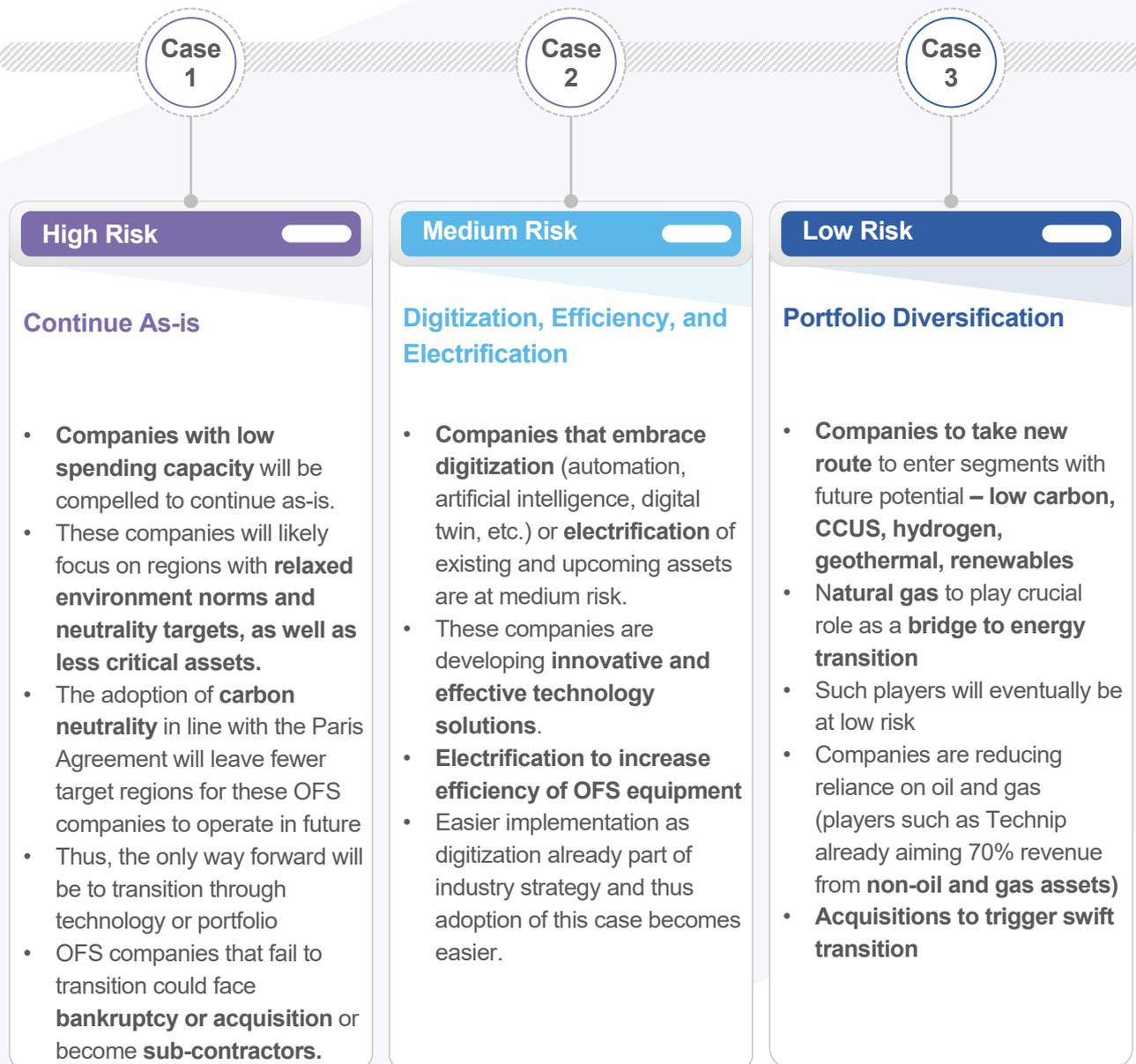
- Traditional and mid-range OFS to face competition from **EPC** firms
- EPC holds advantage of experience in this space
- OFS companies need **constant, rigorous, and rapid** performance enhancement to sustain



## Way Forward for OFS Businesses

Even if crude oil prices stabilize and normalcy returns by mid-2022 (considering the new COVID-19 variants do not have much impact in any geography), upstream E&P companies will be cautious about drilling spend, which will impact OFS players' margins and profits. Additionally, considering increased focus on climate change and sustainability, investors will be inclined to work with players that offer sustainable solutions.

In line with the changing dynamics of the oil and gas segment, OFS players will need to change their business directions and become more agile in accepting and transforming. OFS players can work as per the following scenarios:



All-in-all, we see companies gradually transitioning into the low-carbon space. Early movers (large OFS) and companies already present in the space (EPC) will become pathbreakers. However, a plethora of challenges awaits the early movers.

## Key Questions to Ask

The OFS sector is still at an evolutionary stage as far as sustainable solutions are concerned. As it matures, we will see many new avenues and directions emerging. For now, some of the key questions to ponder upon are:



Will all OFS players set up emission targets soon? When will they start focusing on Scope 3?

What will happen if the targets are not achieved and how will it be gauged with varying portfolios and base years?

Will players focus on emissions and efficiency within their existing offerings, or undertake portfolio diversification?

How will the merger and acquisition space develop within the OFS segment?

What will be favored more – low-carbon offerings, such as CCUS and hydrogen, or renewables?

How rapid will be the decarbonization of existing assets and how will that impact progress?

## Evalueserve Support and Solutions

To explore answers to many such questions, clients across the globe are using Evalueserve's decarbonization solution frameworks to accelerate their decarbonization journey to greener operations and product portfolios.

**Decarbonization Key Pillars** – Evalueserve's perspective on improving your environmental performance

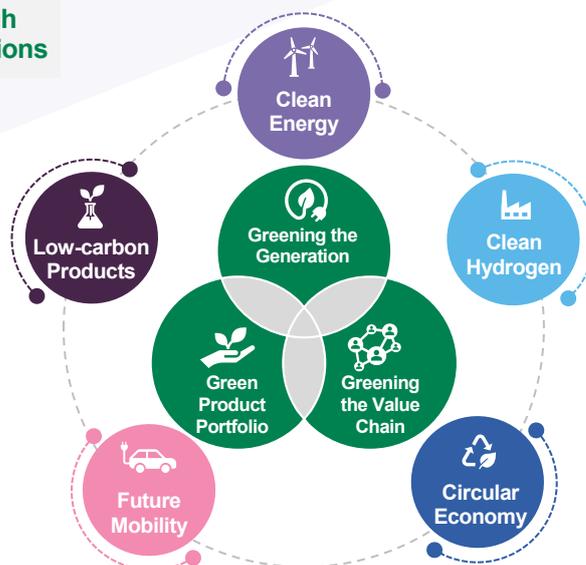
### Decarbonizing Customers through Low-carbon Solutions

#### Making existing products sustainable

- Extending life of existing products
- Green innovation in existing products
- Increasing efficiency or decreasing energy consumption
- Repositioning existing products

#### Introducing disruptive / breakthrough products

- Self-sustaining solutions
- Smart systems to reduce waste



### Decarbonizing Self-operations

#### Accomplishing Cleaner Operations

- Carbon efficiency
- Carbon capture utilization and storage
- Energy efficiency
- Using clean energy
- Renewable power
- Fuel alternatives
- Clean hydrogen

#### Moving from Linear to Circular Economy

- Recycling

#### Sustainable Sourcing and Supply Chain

- Green sourcing
- Sustainability performance

## Evalueserve offerings that enable decisions across dimensions and influence market evolution

Value chain decarbonization – decision support portfolio

<b>Generate</b>		Competitive Intelligence	Market Fundamentals & Outlook Assessment	Regulatory Landscape Assessment	Innovation Monitoring	Opportunity Scanning and Shortlisting
<b>Refine</b>		Market & Value Chain Disruption Analysis	Value Chain Readiness Assessment	Customer Insights – Commercial Model ROI	Competition Assessment	Prioritization of Opportunities
<b>Equip</b>		Partner Ecosystem Development	Customer Engagement Guides	M&A Decision Support	Green Sourcing Opportunities	
<b>ENgage</b>		Market Testing	Go to Market Strategy	Account-based Marketing	Trigger and Intent-based Prospect Identification	

**Featured capabilities**

-  Digital Delivery Platforms
-  Mind + machine™ powered
-  Analytics & Automations
-  Custom Intelligence workflows
-  Synergistic Sector Practices

## Author



**Shubhendra Singh**

Research Lead, Energy and Natural Resources

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