Busting the engineering trap: A better way for oil field service companies to retool their strategies

For OFS firms to prosper, two distinguished business professors suggest using a science-based approach to strategy, selecting the areas with the biggest impact on sales growth through customer value.

VIKAS MITTAL, Rice University and SHRIHARI SRIDHAR, Texas A&M University

Editor’s note: The comments and opinions in this article are strictly those of the authors.

CEOs and boards of many oil field service companies—Baker Hughes, Halliburton, National Oilwell Varco (NOV), NexTier (C&J Energy Services and Keane Group combined) Schlumberger and Weatherford—are developing a “strategy playbook,” of relentless reduction in fixed costs through headcount reduction, coupled with a focus on technology as a differentiator.

In NOV’s Oct. 29 earnings call, CEO and President Clay Williams emphasized “cost-savings initiatives” and “proprietary opportunities to develop and sell digital enhancements” to equipment owners. In an Oct. 21 earnings call, Halliburton Chairman, CEO and President Jeff Miller stated that his company expected to “capture approximately $300 million in annualized cost-savings over the next few quarters” and introduce new technologies, improve margins, and lower the overall service delivery cost. NexTier reiterated its commitment to reducing its workforce, optimizing spend across key areas, and right-sizing the business.

On the one hand, a fear of persistently low crude prices had kept CEOs on their heels, preventing them from making much-needed investments—infrastructure, technology and human capital—that can fuel long-term growth. On the other hand, they hope to gain pricing power through technology-enhanced products. As an example, NexTier is “investing in innovation to deliver further improvements in efficiency and sustainability,” while Halliburton is “deploying technology that lowers our cost and accrues value” to the company. Almost irrationally, the CEOs assume that technology-infused products and services not only lower their costs but also improve pricing power. The holy grail of margin expansion seems within reach!

In Halliburton’s Oct. 21 earnings call, Miller summed up this exuberant view: “To maximize production per every capital expenditure dollar they spend, operators will require technologies that can improve both efficiencies and well productivity…While customers are mostly focused on price today, early studies confirm our technologies work, they are hard to replicate, and will be more valuable to Halliburton over time.”

Such an approach to strategy seems detached from reality. Despite senior leadership’s claim of differentiated offerings, OFS companies—over the last few years—have continued to compete on price with dwindling margins.

The C-CUBES Customer Value Index (C-CVI) reveals a ground reality that differs from the hopes and fears of the companies’ leadership. The C-CVI is based on over 8,000 customer evaluations of 110-plus major energy companies, including OFS companies.

A score of 100 on the C-CVI indicates that a company is delivering the highest level of customer value, and a score of zero indicates the lowest customer value. Oil field services are delivering the highest customer value on providing the lowest price (78), compared to providing a competitive price (75).

The leadership of OFS companies is the Joe Foster ’56 Chair in Business Leadership and Professor of Marketing at Texas A&M University’s Mays Business School.

For OFS companies to improve prosperity while supplying plays like the Eagle Ford shale, they need to retool their strategies. Image: ConocoPhillips.