Capgemini

22nd Edition

November 2020

World Energy Markets Observatory

Oil & Gas

Exploring how rising uncertainties are accelerating strategic divergences

Unprecedented levels of disruption and volatility within the Oil & Gas (O&G) industry have significantly impacted organizations' profitability and put pressure on their license to operate. Unlike decades past, players are pursuing different strategies to address these issues, accelerating their implementation due to the urgent need for energy transition.

"Twenty years ago, the oil and gas industry was largely aligned in terms of vision and strategy. Companies tended to respond to market challenges in the same way," notes Tracey Gilliland, Principal, Energy and Renewables, Capgemini. "What we see today is a shift across the players. Over the next five years, we will see a massive divergence in strategy that could, for example, have BP's business more closely resemble a large, independent power producer than it does Chevron."

The **22nd Edition World Energy Markets Observatory (WEMO)**, Capgemini's annual thought leadership and research report that tracks the development and transformation of energy markets around the world, explores this divergence within the industry through three strategic lenses:

1. Tightening the core business to maintain short term profitability;
2. Defending the core business by maintaining license to operate in the face of growing pressure to reduce climate impact;
3. Preserving long-term profitability by creating options outside the core business.

"Oil and gas companies are navigating through turbulent times as they experience a significant drop in consumption, ongoing price volatility and pressure to reduce emissions. Not all companies will make it through the downturn, but companies that rapidly reduce cost and effectively invest in energy transition capabilities will come out ahead of the pack."

Elfije Lemaitre
North America Energy Lead

In this paper, we explore each of these lenses as they pertain to five different industry segments:

EU Majors
- Reinventing the business as "energy-first"
- Exploring commercial options outside O&G

U.S. Majors
- Aiming to be the last producers in a world of shrinking demand
- Focus on commercial options within O&G

National Oil Companies (NOCs)
- Prioritizing development of national resources
- Maintaining revenue

Unconventional players
- Prioritizing survival
- Facing fewer long-term options

Other players
- Prioritizing survival
- Focusing on commercial assets
- Playing where they can win

Lens 1: Tightening the core business to maintain short term profitability

From a short-term perspective, tightening the core business remains the top priority for the industry, especially for the U.S. majors and NOCs. By this we mean maintaining cash cows, driving universal CAPEX cuts or postponements and otherwise embracing operational excellence as a means of survival.

While the defense strategy will vary from one organization to the next, our research highlights an industry-wide investment in digital as a means of cost optimization, be it through risk reduction, avoidance of costly events or automation of simple and recurring tasks. Many O&G operators have now set up their own digital capabilities. Though implementation varies— some fall under the direction of the IT department while others are formed as a brand-new entity—the universal driver is return on investment based on cost reduction or performance optimization.

While the defense strategy will vary from one organization to the next, our research highlights an industry-wide investment in digital as a means of cost optimization, be it through risk reduction, avoidance of costly events or automation of simple and recurring tasks. Many O&G operators have now set up their own digital capabilities. Though implementation varies— some fall under the direction of the IT department while others are formed as a brand-new entity—the universal driver is return on investment based on cost reduction or performance optimization.

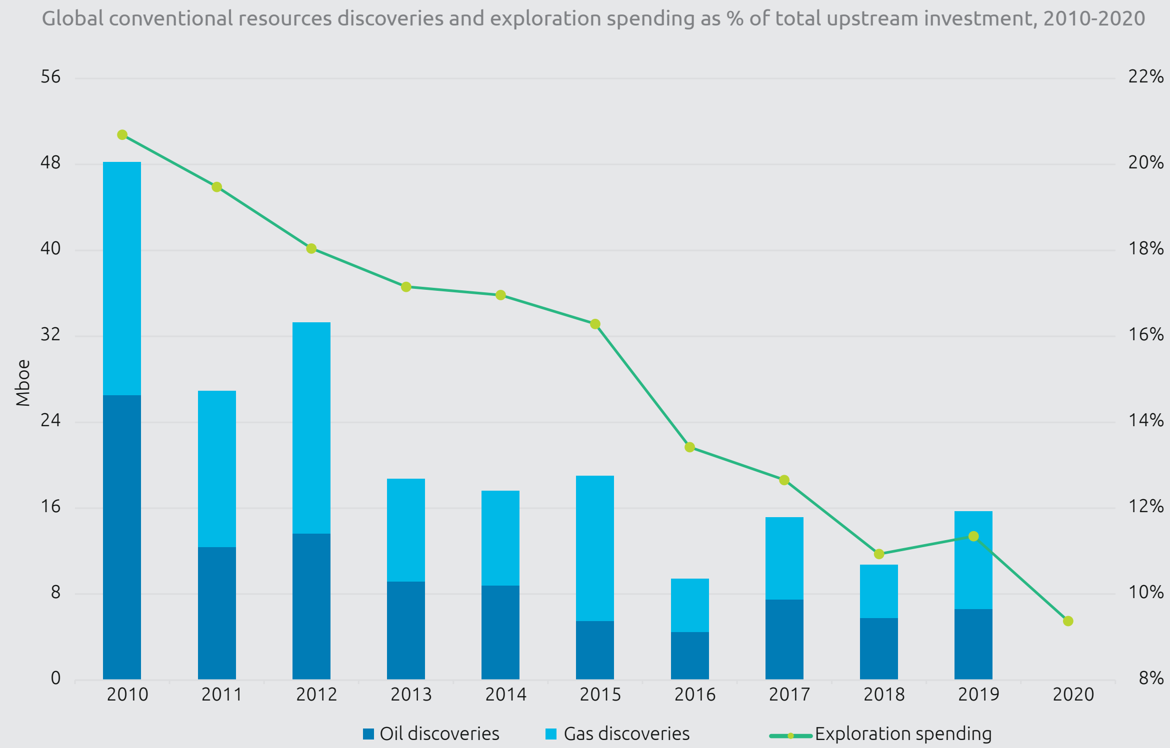
Lens 2: Defending the core business by maintaining license to operate in the face of growing pressure to reduce climate impact

Research indicates that each of the five groups are viewing the future and making decisions through this lens. In most cases, this means improving operations through a variety of measures including reduced methane leakage and flaring, electrification of field operations and system optimization.

That said, there is some divergence in terms of priority. In the EU, for example, majors are implementing energy management systems where climate-related KPIs are defined and monitored. As such, European operators are now embracing much more ambitious plans with regards to climate change, while other areas of the world are experiencing pockets of progress.

FIGURE 1

GLOBAL O&G DISCOVERIES AND EXPLORATION SPENDING AS A % OF UPSTREAM INVESTMENT



Again, in this area, we see companies leveraging digital transformation to enable deeper action on emissions, such as route optimization or data analysis around advanced prediction and detection of fugitive emissions. Those digital solutions enable investments in renewables to offset core operations. In fact, at-scale adoption and deployment depends in large part on the use of intelligent automation to better predict and plan both supply and demand. Further levers within this category include: adjusting the portfolio mix, such as farming down heavy oil; divesting from "high polluting" oil sources; and shifting the portfolio from liquid to gas.

Our analysis indicates that companies which actively reduce their scope 1 emissions will also decrease the long-term risk associated with environmental acceptability, as well as the impact of a carbon tax. In the meantime, they will be seen as a safe and attractive harbor for investment, thus maintaining their key financial indicators.

Lens 3: Preserving long-term profitability by creating options outside the core business

As carbon pressure on core products continues to mount, O&G companies will need to develop a long-term strategy to diversify their revenue from traditional production. For many organizations, this means pursuing options outside the core area of business of pure oil and gas exploration and production. We see the EU majors leading in this area, considering options such as:

- Changing the portfolio mix to develop electricity generation and renewables;
- Ensuring a market for existing products, including carbon capture, utilization and storage (CCUS), chemical/downstream and gas generation; and
- Producing low-carbon products and new businesses.

Our analysis suggests that the long-term operating model will need to prioritize the pursuit of new products, customers and channels. This will require companies to invest in new technologies to accelerate at-scale deployment to balance the losses in O&G revenues. As with any company looking to bridge markets, these organizations will encounter a new set of competitors both within the market and in the financial markets when it comes to investments.

On a positive note, there are synergies between the renewable energy business and the O&G business which can be leveraged. This could give O&G companies an advantage over new entrants if they choose to make the shift towards an "energy-first" model.

"In the end, companies will have to clarify what their overall strategy outside Oil & Gas will be," notes Patrice Jaulneau, Principal, E&P, Capgemini Invent. "This will result in an in-depth modification of their operating model, as well as their approach of risk management. The leaders will likely be the ones who succeed in quickly converting their E&P talents."

A perspective from our Capgemini experts:

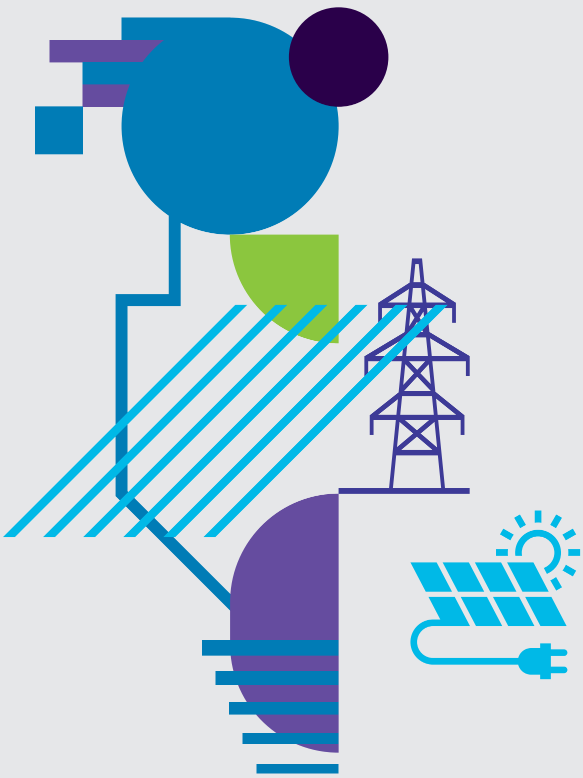
Elfije Lemaitre
North America Energy Lead

Patrice Jaulneau
Principal, E&P, Capgemini Invent

Tracey Gilliland
Principal, Capgemini

To review the full findings from the 22nd Edition World Energy Markets Observatory, download a copy of the report today.

Download Now



About Capgemini

Capgemini is a global leader in consulting, digital transformation, technology, and engineering services. The Group is at the forefront of innovation to address the entire breadth of clients' opportunities in the evolving world of cloud, digital and platforms. Building on its strong 50-year heritage and deep industry-specific expertise, Capgemini enables organizations to realize their business ambitions through an array of services from strategy to operations. A responsible and multicultural company of 265,000 people in nearly 50 countries, Capgemini's purpose is to unleash human energy through technology for an inclusive and sustainable future. With Altran, the Group reported 2019 combined global revenues of €17 billion.

Learn more about us at

www.capgemini.com

The information contained in this document is proprietary. ©2020 Capgemini.
All rights reserved. Rightshore® is a trademark belonging to Capgemini.