

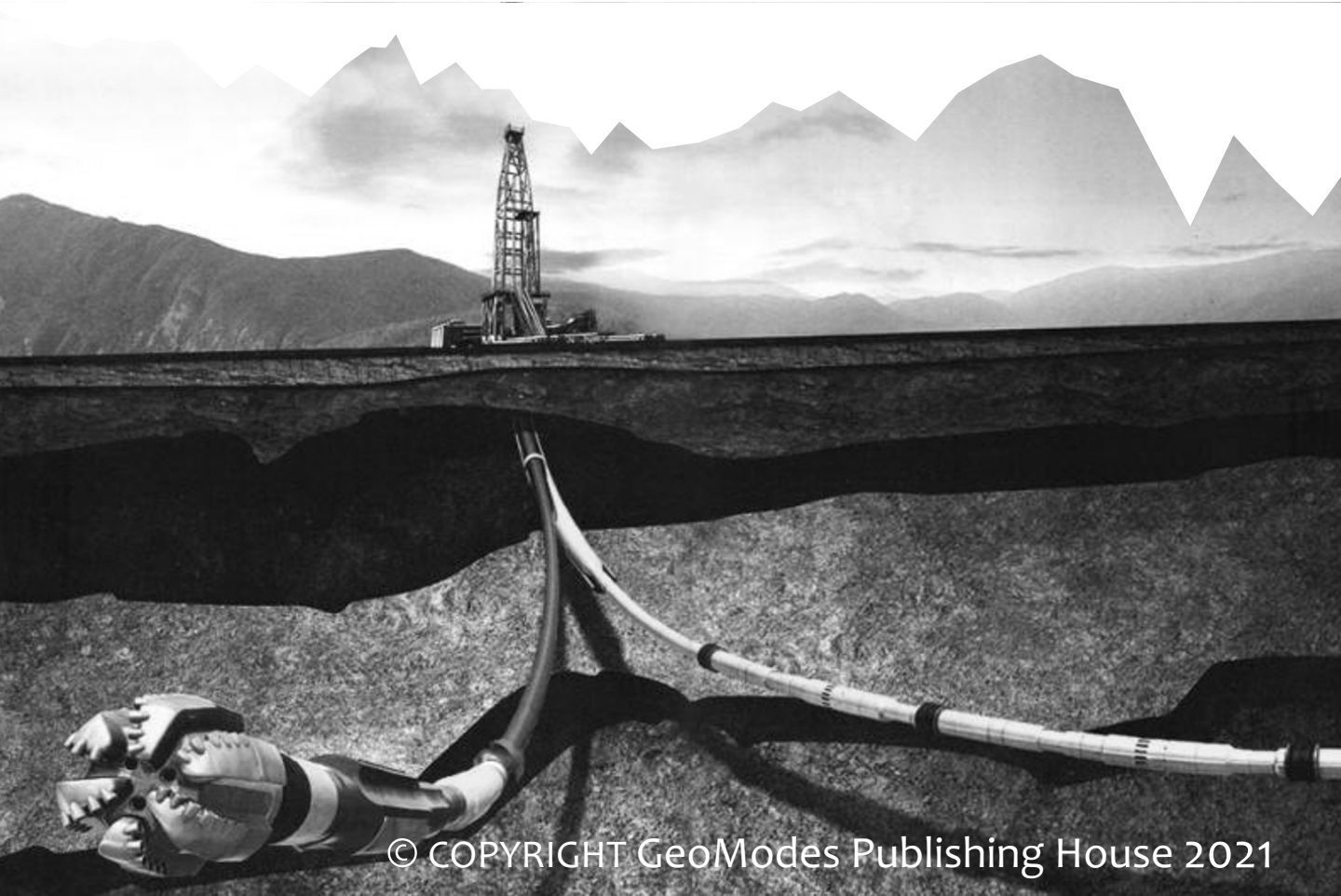


ARTICLE

GEOSTEERING CAPABILITY: To outsource or not to outsource

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1. GEOSTEERING OUTSOURCING STRATEGY

Capturing the benefits of outsourcing while preserving core competencies and long-term success.

In an era of rapid change and uncertainty, the oil and gas industry is grappling with fundamental questions about efficiency, competency, and strategic direction. One contentious issue has emerged as a focal point: the outsourcing of geosteering services. This white paper explores the implications of this prevalent trend within the upstream oil and gas sector, analysing both the potential benefits and the critical risks associated with outsourcing geosteering capabilities. Given the sector's unique challenges, we argue for the retention of geosteering expertise in-house to safeguard core competencies and ensure sustainable growth.



The upstream oil and gas industry has continuously sought ways to optimize operations and reduce costs, leading to an increasing reliance on outsourcing. Particularly, the practice of engaging contractors for geosteering services—central to effective well placement—has become a common norm. However, this trend invites scrutiny, especially considering emerging expert opinions suggesting a re-evaluation of such strategies. For instance, a recent report by PricewaterhouseCoopers (PWC) advocates for the adoption of an "owner-only" approach in the face of current market volatility, proposing that companies should outsource everything except for commercial aspects of their business. This perspective raises an essential question: Are industry players unwittingly undermining their foundational competencies by prioritizing outsourcing over skill development?



2. OUTSOURCING STRATEGY IN QUESTION

PWC's findings suggest a radical shift from the traditional owner-operator model, promoting the idea that companies should eliminate non-core activities. This stance opens the door for many organizations, even those outside the oil and gas sector, to consider entering the upstream market. For example, could a financial institution such as HSBC successfully outsource expertise and become a formidable oil and gas operator? This concept provokes thought about what fundamentally defines a successful operator within this complex industry.

Challenges of outsourcing core capabilities

At the heart of the dilemma lies the essential question: What constitutes an oil and gas operator? If the answer rests solely on outsourcing critical services, one might wonder where the genuine value and expertise reside. This leads to an important reiteration of industry wisdom: "never outsource your core business competencies."



Core Competencies of an Upstream Oil and Gas Operator

To understand the foundation of effective oil and gas operations, it is vital to recognize the core competencies that drive the upstream industry forward:

1. Geological Interpretation and Modelling

The ability to analyse and model geological data is paramount for determining optimal drilling sites, ensuring a high success rate for exploration wells.



2. Safe and Cost-Efficient Drilling

The execution of drilling operations in a safe, efficient manner is crucial. Historical cases demonstrate the catastrophic consequences that can arise from poorly managed drilling processes.

3. Optimal Well Placement

For fields requiring horizontal wells, precise placement is essential to maximize production and reservoir exposure, directly impacting the company's yield.

4. Effective Production Management

Maintaining control over production processes through informed reservoir management ensures that resources are maximized, and operational goals are met.

Therefore, by outsourcing these critical competencies, organizations risk compromising their operational capabilities.



3. NEGATIVE ASPECTS OF OUTSOURCING

Financial Implications of Outsourcing Geosteering Services

Within the oil and gas industry, the financial structure often reveals that personnel costs represent only a small fraction of total expenditures. Consequently, many companies justify the occasional hiring of external talent, operating under the false assumption that outsourcing is a cost-saving endeavour. In truth, while contractors may appear less costly on the surface, the long-term financial implications of outsourcing—especially in terms of lost opportunity and decision-making impact—can far exceed initial investment perceptions.



Assessing Third-Party Involvement

When organizations opt to outsource geosteering services, they frequently rely on third-party firms to manage pivotal segments of drilling operations. Although this may seem advantageous at first glance, it introduces substantial risks associated with external provider partnerships.

Negative Aspects of Outsourcing

1. Conflicting Interests

Representatives of service companies have a clear focus on their own company's success rather than the interests of the hiring organization. Due to a lack of regulatory oversight in many regions, there is minimal accountability for underperformance, enabling poor outcomes without significant repercussions.



2. Unmet Expectations

Ambiguities surrounding job requirements can lead to unmet expectations, leaving external contractors with insufficient clarity concerning their obligations and reducing their liability for incomplete work.

3. Data Security Risks

Varying standards in data security protocols among service providers can expose companies to significant risks. With increasingly stringent data protection laws, any lapses in security could lead to severe consequences.

4. Loss of Knowledge Control

Outsourcing involves relinquishing critical intellectual functions to third parties, jeopardizing the essential knowledge that drives successful geosteering. As companies cede control of their geosteering processes, they risk diminishing their capacity to make informed production decisions.



5. Knowledge Drain

Perhaps the most detrimental effect of outsourcing is the loss of institutional knowledge. When outsourced personnel complete their contracts and leave, they take valuable insights with them, eroding the collective expertise that the company has built over time. Documentation—such as end-of-well reports and lessons-learned summaries—cannot replicate the depth of understanding gained through active geosteering involvement and collaborative relationships developed during fieldwork. This drain on knowledge threatens a company's long-term operational capabilities.

3. CONCLUSION

The myriad reasons outlined in this paper present a compelling case against the outsourcing of geosteering services. The financial, operational, and strategic risks associated with relinquishing core competencies far outweigh the perceived short-term savings derived from engaging external contractors. By maintaining geosteering expertise in-house, oil and gas operators can safeguard critical capabilities that are essential for navigating the complexities of the marketplace and optimizing production outcomes.

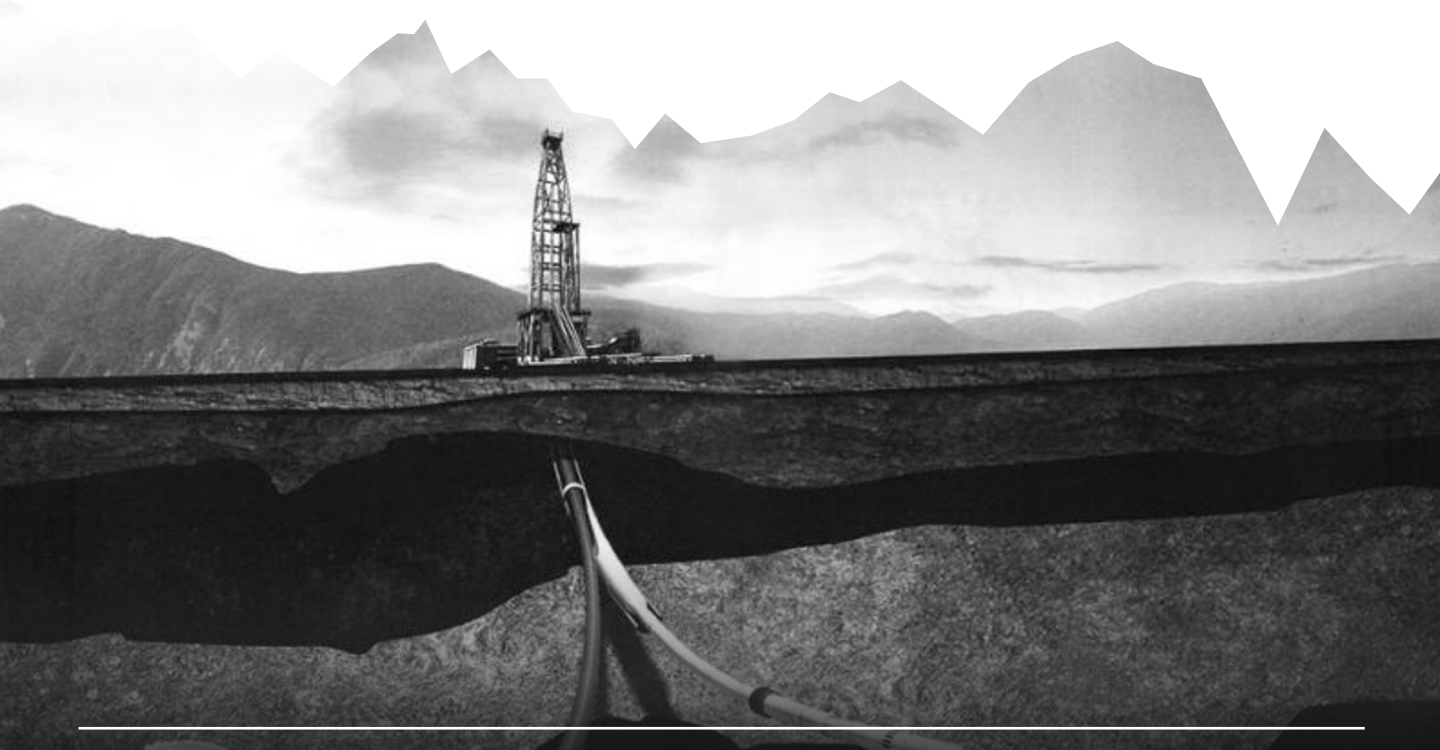
As the oil and gas industry grapples with its future, a reflective examination of outsourcing strategies is crucial. The question remains: Can the industry afford to sacrifice its core competencies in pursuit of purported cost efficiencies?

Call to Action

I invite industry stakeholders, contractors, and professionals to engage in this vital conversation. Are we prioritizing short-term savings over long-term value? Do you agree or disagree with the prevailing outsourcing practices? What insights can you share on the significance of retaining in-house geosteering capabilities?

By coming together to discuss these critical issues, we can collaboratively shape a more resilient future for the oil and gas industry—one that leverages our collective expertise and ensures sustainable operational success.

**GEOSTEERING CAPABILITIES:
TO OUTSOURCE OR NOT TO OUTSOURCE**



CONTACT & SUPPORT - If you have any questions or queries, please do not hesitate to contact us



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