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Phoenix rising: The oilfield services sector transforms again

Executive Summary

In the oil and gas value chain, the oilfield services sector is an essential partner for exploration and production companies, providing drilling, completion, production, supply, and logistical support services—both onshore and offshore. During the 2014–2016 downturn in oil prices, which led to a decline in upstream development activity, the oilfield services sector was hit hard by reduced revenue, canceled or renegotiated contracts at lower rates, and massive personnel layoffs. This report examines the impact the downturn has had on the oilfield services sector and discusses strategies that oilfield services companies are beginning to implement to improve their performance in the emerging oil market recovery and be more resilient during future price cycles.

Signs of an upturn in the oil and gas industry seem to be emerging, with oil prices rising above the $50 threshold beginning in late 2016 and the Baker Hughes rig count growing 42 percent since June 2016 in North American shale plays. In many cases, shale producers have substantially cut their breakeven costs below $50 per barrel.[1,2] In response, the oilfield services sector has seen some recovery in revenues from North American shale regions and oilfield services companies are developing strategies and service offerings to take advantage of the upturn.

Major findings

1. Between 2014 and 2016, 36 percent of oilfield services companies ceased operations; revenues contracted by almost 55 percent; and job losses reached over 50 percent in some subsegments.[3]

2. Oilfield services companies that were the most resilient during the downturn had operations that were more geographically dispersed and had a greater presence in service segments like offshore operations that benefited from longer-term contracts. Larger services companies—with broader and deeper technological capabilities applicable to diverse operating conditions—were more likely to have these characteristics, although some smaller companies also outperformed the group of companies that were examined.

3. Company strategies going into the recovery can be discussed in three broad categories:
   - Prioritize services that achieve ongoing cost reductions for upstream operators, in particular those related to achieving business process and integration efficiencies.
   - Reorganize and redesign business processes to reduce internal costs within the services company.
   - Develop new products and services in existing or adjacent markets.

For more information, or to download the full report, visit
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1. Energy Information Administration (EIA), "Petroleum & Other Liquids," https://www.eia.gov/petroleum/data.php#prices, accessed January 19, 2017.
2. Baker Hughes, "Rig Data," http://phx.corporate-ir.net/phoenix.zhtml?c=79687&p=irol-rigcountsoverview, accessed January 19, 2017.
3. S&P Capital IQ and Deloitte analysis.

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