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10 STEPS FOR MATCHING FINANCE & IT SYSTEMS WITH THE DEVELOPMENT PHASES OF OIL & GAS

When starting or expanding an oil and gas business you'll have many things to consider and getting your finance and IT systems right might not seem like a top priority or even a concern, but it can certainly have a direct impact on the speed and efficiency of your company's development. This article shares our thoughts on the logical steps and sound principles for phasing the development of your finance and IT systems, in-line with the development phases of a typical (if there is such a thing) oil and gas business. As with any business, the lines are blurred for the phases of development, but delineation seems a little clearer in the fast pace of oil and gas, and especially in companies that have a strong actionable plan.

Step 1. Basic IT

Day one of starting an oil and gas business, the requirement for IT might be incredibly simple - email, office applications and file storage as a minimum. It's probably a little premature to invest in an all-singing all-dancing comprehensive IT infrastructure, but it is important to get a good foundation laid that can facilitate ambitious and even aggressive growth.

With the entire world being gently led towards cloud computing, and some of the world's largest companies now being early adopters of entirely cloud based systems, now seems like a great time to be implementing an IT system from scratch. Oil and gas start-ups are amongst those that will benefit most - tending to be small, agile and ambitious.

Microsoft's Office 365 is the most compelling case for cloud, giving everyone accessibility to a core business system with the power of an enterprise grade IT solution, functional benefits of an exchange server and instant scalability from a single user to many thousands - all for almost an insignificant monthly fee per user. Office 365 has many subscription levels to suit your requirements and all of them are easily upgradable - although we'd recommend going straight to Enterprise E3. You'll benefit from emails syncing on all

your devices, file storage and collaboration tools. You can even upgrade to include all voice over IP and messaging functionality. Combine Office 365 and a decent laptop with inbuilt mobile connectivity and you've got a mobile IT system to rival any.

Other software that should be considered an early requirement is a good Contact Relationship Manager (CRM). Microsoft Dynamics and Salesforce are the popular choices. Oil and gas businesses are built on networking and logging communications and important information is imperative.

Despite being 'basic IT', and even at this early stage, it's worth considering the following nine steps and seeking the advice of an expert who can set up your system ensuring it's easy to scale up in the future.

Step 2. Basic Accounting

As soon as your business is up and running and starting to incur administrative expenses, it's time to invest in accounting software.

You'll need a chart of accounts to define ledger transactions and give you the ability to report against expenditure, revenue, assets and liabilities. All businesses (and their management) will have their own operational intricacies and some process planning will help you to understand how best to configure your system to suit your needs.

At this early stage on your path to success, you will only need basic accounting functions, however, again, it's worth considering scalability - know where you're going and what you'll need your system to grow into. A relatively cheap software package like Sage or Quickbooks might satisfy your immediate accounts requirements, but might not stand the test of time. A full fat system like SunSystems, SAP or Oracle might seem expensive for what you need right now, but will lay a good foundation on which you can build upon as you

achieve each of your business objectives. The cost of migrating from one system to another should be considered in terms of money and time, as well as hassle and inconvenience.

Step 3. Finance System

And that's how quickly your system requirements can change in oil and gas. Successfully securing a license and becoming an active operator is not only an exciting milestone and, given the right circumstances, one that might happen very quickly, but also a phase in your company's development that comes with additional responsibilities. If you haven't already attracted investment, it'll be your top priority now.

Investors will not tolerate poorly presented figures and delays in generating reports. They'll be expecting to see a clear demonstration of tight financial control and good financial leadership. Investors and joint venture partners will be keen to see good reporting, but won't be particularly interested in the system behind the scenes, however the system will play an integral role in the simplicity of generating the required reports.

You will need to demonstrate; effective financial management from an oil and gas perspective, joint venture partner management and billing, robust financial controls with appropriate delegation of authorities, budgeting and reporting against actuals, cash burn rates and financial forecasting - all of which should be formatted and presented in a way that is easy to digest and in good time.

Your finance system will now be the heart of your business.

Step 4. Time Recording

You've attracted investment and as your company moves into exploration the requirement for staff increases and the potential for spiralling costs increases with it. 'Staff' in oil and gas tend to be a mix of directors, permanent employees, contracted employees and outside contractors - all of whom should, ideally, be recording their time.

The primary drivers for implementing a time recording system are; gathering information to analyse where money is being spent, more effectively calculating burn rate and improving the accuracy of financial forecasting. Implementing time recording is relatively straight forward and offers a quick win for the finance function.

Whether you're recording the time of expert geologists, the procurement department, or operational staff working in the field, all staff are likely to be working across multiple projects. Even small independents operating under a single license, will be dividing time between an active project and business development. The proportions of time need to be recorded and allocated accordingly.

Complexities arise when charging time back to joint venture partners. Different projects and different activities might have their own terms for cost allocations and the percentage of time and chargeable rates may vary from activity to activity, project to project and partner to partner. A well implemented time recording system helps to make cost allocations and charge backs incredibly easy to manage.

Step 5. Expense Recording

With everything else going on at this phase of your company's growth, recording expenses might seem trivial, but due to the international nature of oil and gas, expenses of travelling staff can soon mount up. Processing expenses can become a tedious distraction from other more important tasks and, while you wait for everyone to fill in their spreadsheets and submit their claims, you could potentially delay the recovery of incurred expenses.

Good expense recording systems can integrate with your credit cards, importing data from your monthly statements into an expense management system ready for allocation against various projects. This simplifies administration and further improves the efficiency of recording and reporting costs incurred by the business. Another very quick win for your finance team.

Step 6. End-to-End Procurement

A procurement system becomes absolutely necessary when the volume of purchase transactions starts to ramp up; probably as you start development (if development isn't entirely outsourced to a single service provider) and certainly upon production when the supply chain gains extra links. However, at both those stages, pace of activity is gathering considerably and dedicating time, energy and resources to the design and implementation of a procurement system might not be at the top of the priority list. So the implementation of a procurement system is worth consideration prior to development and certainly advisable prior to production.

The implementation of a full purchase-to-pay (P2P) procurement system and associated processes can also be broken into phases. First, capturing costs at source, getting all invoices into the system and allocating them against budgeted activities. Next, developing the process for authorisation and the delegation of authorities to the appropriate management. Then, the effective monitoring of requisitions, purchase orders (soft commitments) and receipt of goods (hard commitments), the enforcement of the allocated budgets and then finally, managing payments.

Having a system in place early is simply good practice, but more importantly, having a system that can continue to scale, will give you the chance to bed-in good P2P processes and ensure you'll not have to endure a mass data migration later.

Step 7. Contracts Management

As soon as the procurement system goes live, you're ready and poised for the implementation of contracts management. Although it's part of procurement, buying the services of contractors and consultants is slightly different from buying physical bits and bobs at fixed quantities and fixed prices.

Doing business with contractors and consultants who regularly provide invoices after work is complete can prove to be an administrative challenge, especially as the volume of work and volume of invoices increases. It's easy to apply the process of quote, estimate and purchase order tracking within a procurement system and doing a manual comparison against invoices received, but it's better to implement a contracts framework.

Frameworks specify the details of engagement such as scope, rates and terms, giving the supply chain greater control and a higher level of approval to call-off an agreed budget without having to repeat the approval process over and over. Another quick win for a finance team, who are likely to be very busy by now, and a demonstration of good supplier management which is important when attracting and maintaining best-in-field service providers.

Step 8. High Availability IT

Becoming an active operator is a massive catalyst for operational change, and it's at this stage in your company's development that any interruption in business IT is likely to have a significant impact on business continuity. The tipping point for investing in high availability IT is when the potential cost of downtime exceeds the cost of implementation, normally recognised after an increase in operational activity and operational staff.

High availability IT is essentially doing everything feasible to minimise a single point failure within your IT infrastructure. Implemented through clustered databases, redundant servers, robust network storage and an automated switch over in case of failure.

If, on day one, you opted for a cloud based solution for your basic IT, this is where two independent systems can be seamlessly integrated to provide a true hybrid cloud model which is ideal for fast moving oil and gas companies, offering you the very best of both worlds - high accessibility as well as high availability.

Step 9. Inventory Management

Your success is continuing to match your original ambition and your business opts to manage production rather than outsourcing to a services company. You'll now suddenly find yourself buying and storing a lot of things - everything required to operate a rig, from batteries to drill heads and anything in between.

Knowing what items you have in stock, where they are, what condition they're in and their value is the only way to effectively manage your inventory, enabling you to order new stock before you need it or as the value of their productivity falls below the cost of replacement.

Integrating inventory with your newly implemented procurement system and with the necessary approvals you'll be able to control stock levels ensuring that you've never got too much, or not enough, of what you actually need of any particular item. Having this information at your fingertips gives you the necessary control to ensure the uninterrupted supply of materials and maintain operational continuity.

Step 10. Enterprise Asset Management

Procurement and inventory management are the first phases of an enterprise asset management (EAM) system implementation. The full implementation becomes more appealing once your oil and gas company has become a resounding success. It's now that you'll have multiple assets, multiple teams, multiple suppliers and multiple people managing everything - There'll be a lot more activity, a lot more to track and a lot more to potentially go wrong.

Asset management gives you total sight and control of the entire life-cycle of every material asset including; requisition, purchase, storage, maintenance, spare parts and tooling, reservations and personnel assignment, order details and lead times and anything anyone might need to know about everything your company owns.

Full blown enterprise asset management improves every aspect of production and project management; increasing reliability, improving preventative maintenance and ensuring regulatory compliance. It's incredibly complicated as it threads right through the business and can take a significant amount of effort to implement and train staff, but the results include far greater efficiencies, massive reductions in down time and the ultimate obvious benefits to your bottom line.

Conclusion

To complicate matters somewhat, almost all of the finance steps above can be broken down into further phases; design of the process, design of the system, implementation of both process and system, and reporting the figures. Giving you total control over how much you choose to invest and where that investment will give your business the best returns.

Finance functions can be implemented in isolation with separate pieces of software, but it's better to know where your company is headed and implement a system that has a central core, that can be developed by the addition of modules, therefore maintaining a single source of data and good scalability.

Matching the development of your finance and IT systems with the development phases of your business, will help you keep pace and give your company a strong competitive advantage. Your company will be irresistible to investors and you'll put yourself in good stead for being able to capitalise on opportunities the very moment they present themselves.

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