

Oil & Gas Company Strikes it Rich with Verian

Background

Extreme market volatility, wild swings in oil prices and ever-shrinking margins have forced many oil and gas companies to look for new ways to reduce costs and streamline business processes.

One of the largest independent exploration and production companies drilling in the Gulf of Mexico recently decided to address these challenges head on with an innovative strategy that centered around purchase-to-pay automation technology.

Challenges

The company's purchasing process was mostly manual and paper-laden, and the company was growing. "Adding more people to push more paper didn't make any sense to us," said the director of logistics. "We had far too much duplication of effort in the manual processes we were using."

The company knew the time was right to invest in their infrastructure to help control costs and preserve profit margins. Their inefficient paper-based requisition and purchase order process was extremely labor-intensive. Getting expenditures approved required several redundant steps. "Our approvals were a bottleneck to getting items purchased. Approvals took too long and lagged substantially behind the transaction activity date," said the director of logistics.

In addition, the purchasing and finance groups had no visibility into the approval process to identify the bottlenecks. The process was so challenging that sometimes accounts payable had to rely on vendors to provide statements to verify whether items had been ordered or paid.



The company also knew there were savings to be gained from consolidating spending to fewer suppliers, enabling purchasing to leverage the additional volume and drive lower prices. Also, the purchasing system would help corral employees to buy from contract vendors instead of others, reducing "maverick" spend.

Summary

Industry: Oil & gas company

Challenges: Mired in paper, cumbersome and time-consuming purchasing and approval process, limited spend visibility; overabundance of vendors

Selection Criteria: System ease-of-use; experience in oil and gas industry; ease of integration with BOLO financial system

Solution: Verian's Purchase Manager and Invoice Manager modules

Results: Streamlined processes; 4% savings from supplier consolidation; 10-12% reduction in expenses; 40% net annual savings in processing costs; total savings of \$6.4 million annually

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Building the Business Case

To fund a purchase-to-pay system, the director of logistics developed a conclusive return-on-investment analysis. He found that for MRO (maintenance, repair and operations) purchases, the organization was spending \$567,309 annually in process costs alone. For their non-MRO spend, annual process costs were \$187,103. The staff then developed a “future state” process that relied heavily on a purchase-to-pay system for automation. They also accounted for internal costs for acquiring and implementing a purchase-to-pay system.

Purchase-to-Pay Process Savings

Spend Category	Existing Costs	With Verian System
MRO item process cost-per-invoice	\$29.91	\$17.24
Non-MRO item process cost-per-invoice	\$30.90	\$18.02

Selection Criteria

“We selected Verian for several reasons. Not only do they understand our industry, they were also able to come in and easily integrate with our financial system,” says the company’s director of logistics. “What sealed the deal was how easy their product is to operate. That’s critical for the thousands of offshore requisitioners we have on platforms throughout the Gulf of Mexico.”

Solution

Verian implemented two modules at the oil and gas company, Purchase Manager and Invoice Manager. Not only did Purchase Manager streamline and speed requisitions to mere mouse clicks on an easy-to-use Web-based interface, the centralized purchasing data was now housed on a single database, giving management instant, real-time data on how much was spent and how much remained on all their capital budgets. Purchase Manager also made it easy to associate spending with thousands of AFE (authorization for

expenditure) codes for proper cost allocation. It also meant that foremen could track spending on a well-by-well basis. On the AP side, Invoice Manager enabled AP to manage invoices by exception only because the module automatically processed and approved invoices that matched the PO.

Results

Almost immediately after the system went live, positive feedback started coming in from the field. Foremen liked the system because it started holding field staff accountable for their purchases. Buyers and accounting personnel were also enthusiastic about the system.

With more than \$160 million in annual operation spend and a \$1 billion capital budget, the savings equate to at least \$6.4 million annually.

Because of the new level of visibility the system provided, the director of logistics was able to consolidating spending to fewer suppliers, enabling the purchasing team to drive lower prices. The launch of Purchase Manager also helped corral employees to buy only from contract vendors, further reducing costs.

In less than a year, the oil and gas company expects 10-12% annual cost reductions on all categories of expenses – he also expects the system will pay for itself in the same time period.

The bottom line, after all costs and benefits were tallied? The company discovered that with Verian’s purchase-to-pay system in place, net annual process savings would be 40% — more than \$214,000 in the first year alone.

More substantially, the company will see 4% in savings from reduced cost of goods and services through supplier rationalization and greater contract compliance. With more than \$160 million in annual operation spend and a \$1 billion capital budget, those savings equate to at least \$6.4 million annually.

