



Oil and Gas Cost Savings: Time is the Most Valuable Commodity

by Michael G. DeCata – President & CEO, Lawson Products, Inc. April 18, 2016

Focus on what you can control

The historic decline in the price of oil, which has dropped 70 percent since the summer of 2014, brought with it operational challenges for oil and gas enterprises, including unprecedented headcount and CAPEX reductions. New performance strategies ensuring production uptime, particularly in aging assets both upstream and downstream, and establishing efficient workflow processes are vital to improved and profitable business operations, returning some control in a struggling climate.



Maximizing productivity is critical to reducing the market's impact on financial performance. And there is one metric that is preeminent over all others: time. Whether you consider machine time or labor, accomplishing more per unit of time is the difference between succumbing and surviving. And when the market regains its footing, accomplishing more per unit of time will mark the difference between average profits and superior profits; between competing and winning.

In a downturn, firms often focus on price rather than cost. Equipment maintenance is a prime example. The value of machine uptime and labor productivity often dwarfs the price of consumable maintenance components. A \$300,000 excavator that an operating company uses can be disabled by a \$5.00 hydraulic hose fitting. Without the replacement part on hand, one or two days of service may be lost, pushing back production. Think about the decision to cannibalize a part from a sidelined rig, only to have it fail, potentially with a devastating safety or environmental effect. How much could a work interruption cost you?

High service, vendor managed inventory (VMI) is an approach to insuring part availability at the instant the part is needed, without the loss of production incumbent with next day service. High service VMI minimizes inventory costs associated with just in case inventory by monitoring consumption on a weekly or bi-weekly basis, improving both asset time utilization and the productivity of skilled mechanics.

Operating company extracts dramatic savings

One of Lawson Products' largest customers is a major international oilfield services company. This operating company provides production management, the crews, infrastructure, rigs, hydraulics, casings, trucks, and more – everything required to respond to exploration and production (E&P) customer needs.

The service provider significantly improved equipment utilization and reduced turnaround times in its pressure pumping division by reducing inventory and maximizing the productivity of its mechanics.

Over the past year, Lawson has provided this customer 12,220 unique items, totaling several million pieces, at an average piece price of less than \$1.00. The real-time availability and labor productivity associated with these expense items is extraordinary.

Continues on back

Time is money

Because of the nature of maintenance repair and operating supplies, consumable MRO in this case, it touches everything. Whether for exploration and production or operating companies, it's all of those consumable maintenance items – drill bits, specialty adhesives and chemicals, or a broad range of fasteners – that mechanics or engineers expect to be there when they reach for them. This affects both productivity and profitability. An empty drawer or shelf could keep a critical piece of equipment offline. VMI programs done to the fullest extent directly impact an organization's earnings.

Due to headcount reductions, we've seen more clients using multi-skilled crews to address resource management. Set expectations with your VMI provider to handle all of the ordering, inventory management and stocking of your bins, freeing up staff to focus on more strategic work. We have an E&P client that helicopters our sales representative out to the rig to do workspace audits, restocking and consultations on the right way to use products and demonstrate additional uses for them. Especially in distressed periods, you'll put time back on your side by leveraging high service from your VMI provider.

Lastly, it's well documented that a significant percentage of downtime that companies experience relate to product reliability. That's a final area of cost savings. Selecting quality, highly engineered and more durable products gets to a lower cost overall, due to greater uptime.

There's that word again, time.

During this challenging period in the oil and gas industry, every minute of productivity counts. High-service VMI is the best way to squeeze every minute of productivity from your machines and make every minute of your mechanics' time available for value-added work.

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