EnergyPoint Oilfield Note

TRACKING CUSTOMER SENTIMENT

"Because the right partners can make all the difference . . ."

April 2007

EnergyPoint RESEARCH

Customers' Satisfaction with Oilfield Suppliers' Technology

Suppliers That Perform Well in Key Areas While Managing Expectations Rated Most Favorably

With oil and gas reserves becoming more difficult to find, access and extract with each passing day, it seems an established fact that upstream companies see the development and application of **new technology** as absolutely crucial to their future. In fact, pick up one of the industry's many trade publications these days and chances are you'll find at least one guest article or editor's column offering a well-worn tribute to the **role technology will play** as the industry strives to meet growing global demand for hydrocarbons.

This almost universally-acknowledged **importance of technology** has not gone unnoticed by oilfield product and services suppliers, who are very aware of and focused upon the issue and the opportunities it presents for their companies. Furthermore, ask any executive, product or service-line manager, sales representative, etc. from almost any oilfield service supplier or drilling contractor about the quality of their own company's particular technology, and we'd be willing to wager that they'll say theirs is **"the best"**. While we have no desire or intention to question the genuineness of these persons' or companies' convictions regarding the quality of their technology, our understanding of the concept of "best" leads us to believe **they <u>all</u> can't be right**.

Today's suppliers tend to think in terms of how big, fast, new or advanced their technologies are compared to that of peers or predecessor technologies. And, in many cases, these are the same characteristics some believe make their technologies the best. But what about looking at technology from the perspective of **customer satisfaction?** Shouldn't customers' opinions and levels of satisfaction with the technology they purchase count for something? We believe so and have therefore dedicated this month's note to providing our readers with a cursory glimpse into how our survey respondents view **oilfield technology** and **who they see as <u>leaders</u>** in the ability to provide technology that satisfies.

<u>Technology-related Ratings Leaders</u>

EnergyPoint collects customer satisfaction data regarding oilfield suppliers' technology and technology-related performance and attributes via two surveys. In our most recent Drilling & Wellsite Contractors Survey, **Rowan Companies** (RDC) and **Helmerich & Payne** (HP) rated highest in terms of technology in the categories of offshore and land drillers, respectively. **Schlumberger** (SLB) rated first among integrated service suppliers, while **Tesco** (TESOF) rated first among specialty service suppliers. In our most recent Drilling / Wellsite Equipment & Materials Survey, **Smith International** (SII) rated first among integrated product suppliers, and privately-held drilling equipment maker **Davis-Lynch** rated tops among specialty product providers. See the attached table for more on customers' and EnergyPoint's perspectives regarding these standout performers.

<u>Understanding the Drivers</u>

Purchasers of EnergyPoint's detailed reports related to these two surveys already know that we do not fully buy into the notion that the best technology always makes for the most satisfied customers in the oilfield. Rather, we find that customers' satisfaction with suppliers' technology (including engineering and design attributes on the products side) ranges from **important** to **moderately-important** as a satisfaction driver, behind such highly-important attributes as <u>service and professionalism</u> and <u>job quality</u> (in the case of drilling and wellsite services) and <u>post-sale support</u> and <u>personnel</u> (in the case of wellsite products).

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However, trends do suggest that a supplier's expertise and capabilities in technology-related attributes is **climbing in terms of its importance** to customers' overall sense of satisfaction. Below is a summary of what our surveys suggest regarding the importance customers place on various technology-related attributes:

- For contract drillers and oilfield service providers, we find that a provider's *ability to develop value-creating technologies* is increasing in importance in customers' minds. The *ability to apply both in-house and third-party technologies* also shows a relatively strong impact on overall satisfaction, suggesting the average customer is still somewhat inclined to select less expensive off-the-shelf technologies with modest, but more certain, benefits than purchase unproven technologies that offer only the possibility of outsized productivity gains or cost savings (although, again, there is evidence to suggest this mindset is shifting).

- On the wellsite equipment and materials side, the *ease and cost of installation, operation and maintenance* appears to have the greatest impact on overall satisfaction within the technology-related area of Engineering & Design, with a slightly lesser impact from *the degree to which products and upgrades are value-adding*. Close behind these two influential factors was *technical soundness and sophistication of products*.

Managing Expectations

We believe the ability to perform in the areas discussed above helps explain how and why certain suppliers are able to develop and apply technology that satisfies customers in ways others can not. Yet, the ability to satisfy customers is also a function of performance relative to customer expectations. To be sure, suppliers that **meet** or **exceed the expectations of customers** on a consistent basis have a much greater chance of achieving high levels of customer satisfaction.

Unfortunately, some suppliers do not fully understand **the inherent tie** between expectations and customer satisfaction when it comes to technology (or other dimensions of their business, for that matter). As a result, they tend to **over-sell** their ability to develop new and / or apply existing technologies in an effort to win business. Eventually they experience customer dissatisfaction when they are unable to meet customers' raised expectations, which in turn leads to customer defections and higher levels of **negative word-of-mouth** in the marketplace.

As a result of these and other factors (and notwithstanding the trends referenced above), industry-wide many customers remain **suspicious of suppliers' objectives** when it comes to technology, seeing some purported "innovations" simply as vehicles for instituting price increases while adding little in the way real value. In the words of one past survey respondent, "*All new technology seems to be deemed 'commercial' these days until proven otherwise – usually at [the customer's] expense*." Thus, suppliers that can offer **high performance** in the area of technology while properly **managing customers' expectations** possess a distinct advantage in today's competitive market.

P. Douglas Sheridan
+1.713.529.9450
doug.sheridan@epresearch.com
www.energypointresearch.com

Customer Satisfaction Leaders in Technology

- Across Oilfield Categories -

	Wellsite Services [1]		Oilfield Equipment [2]		Drilling Contractors [1]	
	Integrated	**Specialty**	**Integrated**	**Specialty**	**Global Offshore**	**N. American Land**
Technology Satisfaction Leader	**Schlumberger**	**Tesco**	**Smith International**	**Davis-Lynch**	**Rowan Companies**	**Helmerich & Payne**
What Survey Respondents Have to Say	Survey respondents strongly touted the company's highly-qualified and **capable engineers** and SLB's willingness and ability to develop cutting-edge technologies that benefit them as customers. Evaluators seemed slightly less enthusiastic with the company's ability to apply in-house and **third-party technology**.	Tesco received very **strong marks** from survey respondents regarding their satisfaction with the company's technology. Rated high in terms of **responsiveness** to customers for new technology development and the extent to which their technology is value-creating. Ratings mostly reflect its **tubular installation** services.	In our latest wellsite products survey, respondents rated Smith's drill bits and downhole equipment very highly. SII's **technical personnel** ratings are the highest among the "Big Six" service companies. And its technology scored well for its value-adding nature and the **ease** and **cost** of **installation** and **operation.**	Rated No. 1 in **all three components** of our wellsite products technology index; that is: i) the value-adding nature of products, ii) the technical soundness and sophistication, and iii) the ease and cost of installation. In the words of one respondent, "The **constant innovations** . . . regularly introduced by the company [are] superb."	Those evaluating RDC in the 2006 wellsite services survey rated it tops among offshore drillers in two of the three technology-oriented attributes. RDC's ability to develop **value-creating** technology emerged as a real strength. Its capabilities as a land driller are also well regarded, though a smaller portion of its business.	Respondents rated the company's technology No. 1 **across-the-board** in our most recent survey, even beating out SLB. Customers clearly buy-in to the company's proprietary FlexRig rig design. Applauded for continuously developing **new techniques** and **processes** that benefit both customers and HP employees.
EnergyPoint's Comments	We've seen enough independent feedback from customers to understand that SLB is the **real deal** when it comes to their oilfield technology. While some wish its customer-relationship skills matched its impressive technology, many in the industry are **very appreciative** of the company's considerable commitment to R&D in the industry.	Tesco is developing a **reputation for leading** rather than following in terms of technology development. While its size and breath of offerings pales in comparison to some of its larger peers, it offers technology that we believe customers **really like**. We'll be watching to see if its satisfaction ratings improve in areas outside of technology.	The company is **able to integrate** entrepreneurialism, innovation and managerial and financial discipline into product development as well as any we've seen. We expect Smith to continue to demonstrate **technical leadership,** especially in the area of drill bits and drilling muds and fluids (via its operatorship of M-I SWACO).	Investment-oriented subscribers to our monthly note will be disappointed to hear that Davis-Lynch is not publicly-traded. But make no mistake about it, the company's **downhole drilling equipment** can and does compete very effectively against companies with much deeper pockets. When you're good, you're good.	We suspect customers give the company a lot of credit for its in-house rig and equipment **manufacturing capabilities** via its LeTourneau, LEWCO and OEM divisions. The company has recently developed and employed on its rigs a **new top drive** designed to reduce downtime through the elimination of the gearbox.	Readers of our past reports and notes already know that we believe HP is **an elite player** when it comes to U.S. land drillers, and their in-house rig design and production / fabrication capabilities play a large part in this assessment. But we also believe it's the company's **competence as an operator** and manager that pulls it all together.
Category Runner-Up	**BJ Services**	**Wood Group**	**Schlumberger**	**V&M Tubes**	**Noble Drilling**	**Precision Drilling**

[1] Based on ratings from EnergyPoint's 2006 Drilling & Wellsite Contractors Survey.
[2] Based on ratings from EnergyPoint's 2005 Drilling / Wellsite Equipment & Materials Survey.

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