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**January 2007**



## **Courting the National Oil Companies**

### **How the “Big Six” Service Providers Rate Out with State-owned Operators**

By some estimates, national oil companies (NOCs) control an estimated 90% of the world’s proven petroleum reserves. One need look no further than Statoil’s recent announcement to purchase the offshore oil and gas assets of Norsk Hydro, Royal Dutch Shell’s sale of interest in the Sakhalin II project to Gazprom, or the creeping nationalization taking place in Latin America to understand that state-controlled oil and gas companies are poised to grow substantially in both size and influence in coming years.

In the past, NOCs have tended to look to established international oil companies (IOCs) like ExxonMobil, Chevron, BP, ConocoPhillips, Shell and others to develop their reserves. Under these arrangements, IOCs have traditionally handled much of the selection and management of oilfield vendors on behalf of their NOC partners. However, this is changing as NOCs now appear to be asserting themselves to a greater degree when it comes to the selection and management of their oilfield vendors.

#### **NOC Ratings of the “Big Six” Service Companies**

Few industry suppliers will be impacted more by the developing influence of NOCs than the industry’s “Big Six” service vendors; that is: Schlumberger (SLB), Halliburton (HAL), Baker Hughes (BHI), Weatherford (WFT), BJ Services (BJS) and Smith International (SII). In fact, of the 268 evaluations completed by respondents at NOCs in EnergyPoint’s 2006 Drilling & Wellsite Contractors Survey, almost 70% were evaluations of one of these six global service vendors. As a result, we thought it would be helpful to examine how each of these six companies is currently rated in our surveys by NOC respondents. Below is a summary of our findings:

##### **Smith International** (Ranked **1st** in Total Satisfaction by NOCs; **9** Evaluations)

Followers of EnergyPoint’s ratings already know Smith International historically rates very well in the eyes of most of our survey participants, and the same holds true when it comes to respondents at NOCs. Smith ranked first in total satisfaction, reliability, price-for-value and service & professionalism in 2006. And it rated second in job quality and third in corporate resources. The company also fared particularly well with NOCs in the Asia Pacific. The only potential chink in SII’s armor we could find is in the area of technology, where it finished toward the middle of the pack and well behind group leader Schlumberger.

Note - Smith’s NOC evaluation count was the lowest of the six providers. This is in part due to the fact that two of Smith’s largest business lines, drilling bits and drilling fluids (via Smith-operated M-I SWACO), are covered in our products survey (due out in mid-2007). The services of Smith rated by respondents in the 2006 survey are mostly for its downhole tool-retrieval and hole-remediation (i.e., “fishing”) services.

##### **BJ Services** (Ranked **2<sup>nd</sup>** in Total Satisfaction by NOCs; **23** Evaluations)

In many respects, BJ Services’ position / potential with NOCs might arguably be the envy of the group. Not only was the company evaluated (and thus likely viewed as a key vendor) by a number of leading NOCs despite lacking some of the size and scope of its larger competitors, BJ ranked well across virtually every satisfaction attribute except corporate resources. In addition, NOCs rated BJ’s: i) cementing services, ii) completion services, and; iii) workovers & well services all first among the Big Six. If a remedy can be found for below-average ratings in its nascent casing and tubing running services group, and ratings improvements from key NOCs in the Middle East & N. Africa region can be achieved, BJ Services should be positioned to benefit as much as or more than any of the six from the ongoing shift to a more NOC-centric world.

**Halliburton** (Ranked 3<sup>rd</sup> in Total Satisfaction by NOCs; 52 Evaluations)

Overall, Halliburton appears to be a contender in terms of NOC satisfaction but not quite a leader as the company rated toward the middle of the pack in many dimensions of satisfaction. One strength appears to be in the area of corporate resources, although this category is not shown to be a particularly strong driver of customer satisfaction with NOCs. NOC respondents also showed enthusiasm for its performance in the categories of cementing and completion services. Ratings for directional drilling and workovers & well servicing were slightly less encouraging. Geographically, its ratings were respectable – and in some cases quite strong – across the globe. The company also had the highest number of evaluations from respondents at NOCs of any vendor in the survey, anecdotally suggesting a relatively high penetration rate with NOCs.

**Schlumberger** (Ranked 4<sup>th</sup> in Total Satisfaction by NOCs; 49 Evaluations)

As with most other customer types in our survey, respondents from NOCs appreciate Schlumberger's industry leadership, yet seemingly grate at its culture and the "we-know-best" attitude it can sometimes display toward customers. Not surprisingly, the company rated first in all three of the survey's technology-related sub-attributes (i.e., responsiveness to requests for new technologies, the ability to develop value-creating technologies, and ability to apply both in-house & third-party technologies). It also rated first in the areas of corporate resources and safety & environmental. And its directional drilling and formation & evaluations services were standouts with NOCs. Yet SLB still rated 4<sup>th</sup> among the Big Six in terms of total satisfaction. So what gives? Part of the answer lies in SLB's assertive pricing practices, which pushed its price-for-value ranking by NOCs to last (6<sup>th</sup>) place. In addition, its completion and workovers / well services ratings were relative laggards.

**Baker Hughes** (Ranked 5<sup>th</sup> in Total Satisfaction by NOCs; 33 Evaluations)

Baker Hughes' weak showing with NOCs in the survey has to be one of the most salient findings of our analysis. Its low standing is especially notable given that it rated first with NOCs in our (admittedly smaller) survey just two years ago. Yet in 2006, BHI rated last in terms of reliability and in the categories of fishing and formation & well evaluation services. It also finished in the bottom half in terms of technology, job quality and service & professionalism. Low ratings in the Middle East & N. Africa appear to have played a role in dragging its standing down. If not for relatively strong ratings by NOC respondents in other regions of the world, along with respectable ratings in completion services and workovers & well servicing, we might be tempted to suggest the company's latest corporate-wide reorganization has hurt its performance with customers internationally, including NOCs. At the very least, we'll be keeping a close eye on BHI's performance with all types of customers, including NOCs.

**Weatherford International** (Ranked 6<sup>th</sup> in Total Satisfaction by NOCs; 17 Evaluations)

In our estimation, based on the combination of its relatively low evaluation count and its last-placed ranking in the survey, Weatherford's position with NOCs seems to be the weakest of the six vendors examined. Only 12.4% of its survey evaluations in the 2006 survey came from respondents at NOCs. This compares to an average of 17.3% at the other five vendors. In addition, WFT rated last (i.e., 6<sup>th</sup>) among NOC respondents in total satisfaction, technology, job quality, service & professionalism, corporate capabilities, completion services and workovers / well servicing. And it rated next to last (5<sup>th</sup>) in reliability. Unfortunately, past ratings don't offer any different story, as the company also finished last in total satisfaction with respondents at NOCs in our 2004 survey. The silver lining? Weatherford did rate relatively well with NOCs in the Middle East & N. Africa.

**Drivers of NOC Satisfaction**

Statistical analysis of the evaluations completed by respondents from NOCs suggests that vendors scoring well in the area of **service & professionalism** have the best chance of satisfying NOCs overall. Not surprisingly, both Smith and BJ Services stand out in this key attribute. Within the attribute of service & professionalism, the sub-attributes of flexibility and responsiveness seem to be the single largest drivers of NOC satisfaction. This is followed by accountability in resolving problems and disputes. **Job quality** was also shown to be a strong determinant of NOC customer satisfaction, attributes in which Smith International and Schlumberger were relative standouts. Job quality's influence appears primarily driven by the abilities to apply lessons learned and show continual improvements. The quality of providers' pre-job planning & design processes was also influential.

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## NOC Respondents' Satisfaction with Drilling & Wellsite Services of the "Big Six" Providers

