



IN SEARCH OF COMPETITIVE ADVANTAGE, SUPPLIERS SHARPENING THEIR FOCUS ON CUSTOMERS

Like most corners of the business world, the oilfield supply sector is currently searching for ways to improve its circumstances. The intoxicating blend of easy money, robust economic growth and over-heated commodity prices that fueled record profits not long ago are now gone. In their place is a recessed combination of tight credit markets, slower growth prospects and materially lower commodity price expectations.

Clearly, it's a more competitive world these days. The intense sellers' market that existed during the last up-cycle has all but evaporated in most, if not all, major segments of the industry. Along the way, much of the vast inventory of new and replacement customers, markets and projects that suppliers had grown accustomed to essentially dried up. The cushion of significant excess demand that previously took the industry to new heights has simply, and remarkably, vanished.

PATH TO PERFORMANCE

In recognition of what some are now calling the industry's *new normal*, many suppliers are recasting their sights and attention toward their clients. This is good news. Suppliers will undoubtedly emerge as better, more competitive organizations due to this renewed, if not newfound, emphasis on customers. They will also enjoy greater confidence, purpose and direction as they navigate the remaining throes of this difficult down cycle.

That said, what many suppliers do not yet realize is that the competitive advantages they seek via higher customer

satisfaction in these down times will be worth maintaining in the good times as well. In much the same way strong health, safety and environmental (HSE) performance benefits oilfield suppliers' competitiveness at all points in the cycle, higher customer satisfaction provides valuable advantages and rewards regardless of industry conditions.

And be sure, investors are taking note of suppliers' standings in the market place. Consider **Core Laboratories**, **Helmerich & Payne**, **Lufkin Industries** and **Noble Drilling** —

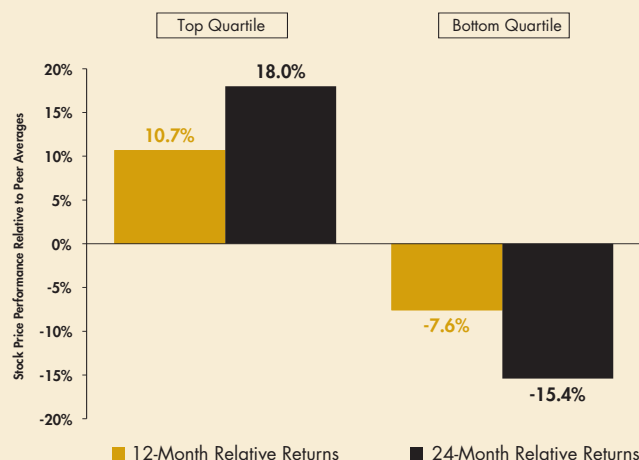
four publically traded suppliers that have regularly placed in the top quartile of EnergyPoint Research's independent customer satisfaction surveys. Since 2004, when EnergyPoint first began compiling data, the stock prices of these standout companies have risen a remarkable 211.7% on average (the industry-wide return over the same period as measured by the Philadelphia Oil Services Index, or the OSX, was

71.5%). Contrast these results with the average returns of **Key Energy Services**, **Nabors Industries**, **National Oilwell Varco** and **Tetra Technologies**, all companies that have placed in the bottom quartile in EnergyPoint surveys over the same period. For this group, the average stock price increase was a much more subdued 37.6%.

PREPONDERANCE OF EVIDENCE

Indications of a correlation between customer satisfaction and investor returns have existed for years. A seminal study conducted by the University of Michigan's Ross School of Business examined 10 years worth of data from the

Investor Returns of Oilfield Suppliers
Continue to Favor Customer Satisfaction Leaders



American Customer Satisfaction Index (ACSI) and found that investment portfolios based on customer satisfaction ratings delivered statistically significant excess returns in both up and down markets across a range of different industries.

Unfortunately, the ACSI does not furnish ratings concerning suppliers of products and services to the upstream oil and gas industry. However, utilizing customer satisfaction data collected via EnergyPoint's surveys, we've conducted our own analysis. And in the process, we uncovered some compelling findings.

In the 12 months after completion of EnergyPoint's surveys, the average stock price return of suppliers ranking in the top half of a survey outperformed those in the bottom half by 10.5 percentage points. This outperformance grew to 12.2 percentage points when the observation period was expanded to 24 months. Even more striking, suppliers placing in the top quartile of the surveys outperformed the bottom quartile by 18.3 and 33.4 percentage points over the subsequent 12 and 24 months, respectively. Following are statistical test results estimating the probability these findings reflect statistically significant differences rather than simple chance or coincidence.

Outperformance over 12-Months

Top vs. Bottom Qtr	+18.3%	@ 94.8% Significance
Top vs. Bottom Half	+10.5%	@ 91.2% Significance

Outperformance over 24-Months

Top vs. Bottom Qtr	+33.4%	@ 98.5% Significance
Top vs. Bottom Half	+12.2%	@ 77.1% Significance

On average, since 2004, a one-half point increase in a supplier's total satisfaction rating, based on EnergyPoint's standard 10-pt scale, has correlated to an incremental positive 5.7% and 9.2% in shareholder returns over the subsequent 12 and 24 months, respectively.

THE LOYALTY FACTOR

So, why do higher customer satisfaction levels tend to lead to outsized returns for shareholders? Research has shown that companies rating well with customers benefit in a num-

ber of ways — both financially and strategically. For one, satisfying and retaining customers is simply more efficient than constantly having to replace them. And where higher levels of customer satisfaction exist, customer loyalty tends to follow. Greater loyalty means customers are less likely to be lured away by competitors, even when prospects of lower prices are involved.

As a result, high performers dedicate fewer corporate resources to attracting and adapting to replacement customers. This allows for greater focus on the fundamentals of designing and delivering quality products and services that, in turn, enhance a company's reputation, engenders affirmative testimonials in the market place, and leads to new business.

Offering additional support to the contention that higher customer satisfaction leads to greater client loyalty, we note that respondents to recent EnergyPoint surveys who indicated their overall satisfaction with a supplier to be at top-quartile levels also indicated their intention to reuse that same supplier at rates almost 40% higher on average than for suppliers placing in the bottom-quartile. That's big.

ENDURING RELEVANCE

The correlation between customer satisfaction and investor returns of publicly traded oilfield suppliers carries relevance for multiple stakeholders. For suppliers, it implies they have strong and lasting incentive to view customer satisfaction as a crucial component of competitive advantage. For customers, it is an indication that they continue, as a whole, to reward suppliers in proportion to how well their needs as customers are being met. And finally, for investors, it indicates a supplier's customer satisfaction standing can have a material impact on its ability to generate excess returns for shareholders over time.

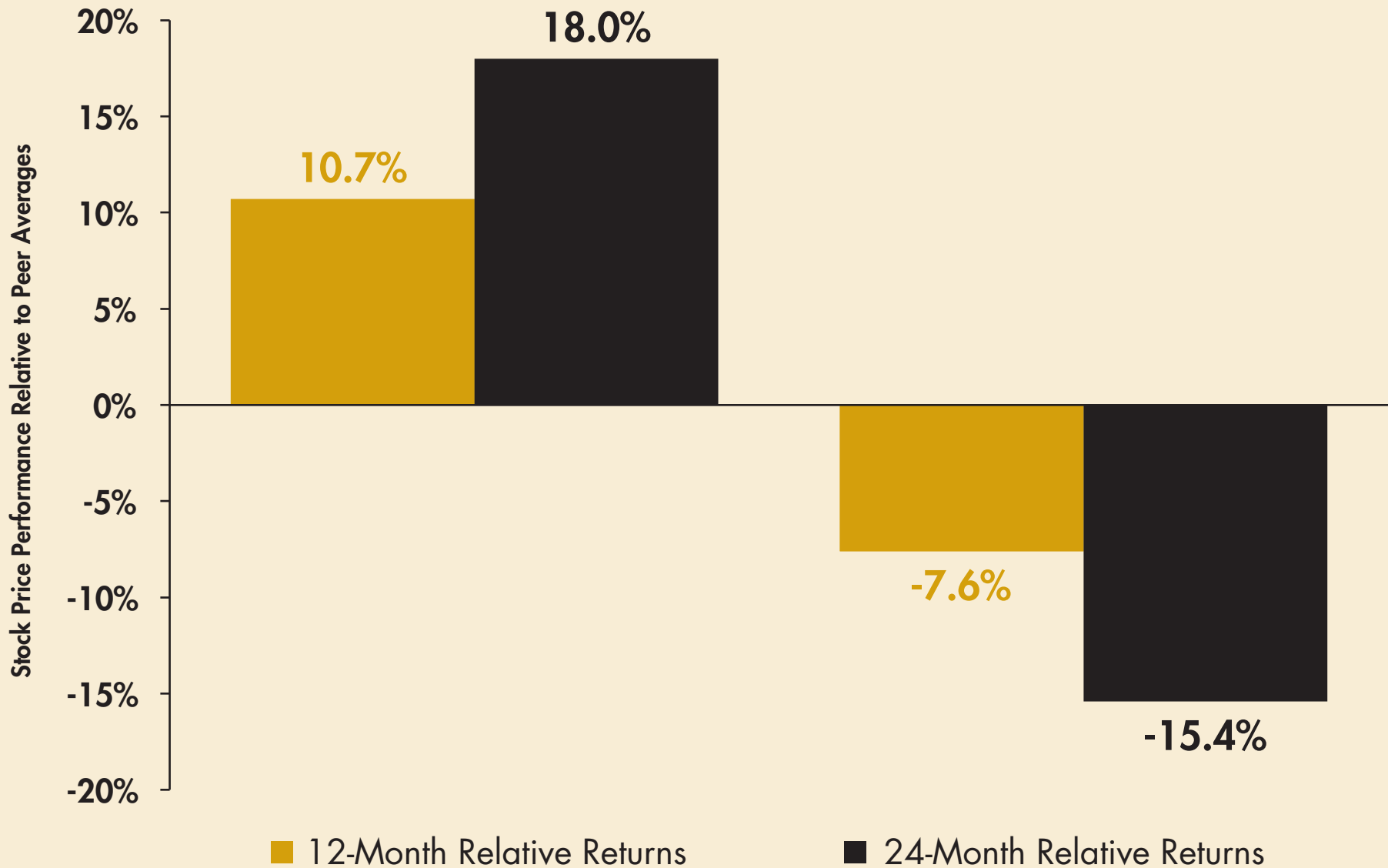
This report is based on findings from over 9,700 customer evaluations of oilfield suppliers collected via EnergyPoint Research's independent customer satisfaction surveys since 2004. In exchange for participating, respondents were provided survey results in the form of EnergyPoint's MarketPartners® Reports & Updates, past versions of which may be found at www.energypointresearch.com.

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Investor Returns of Oilfield Suppliers Continue to Favor Customer Satisfaction Leaders

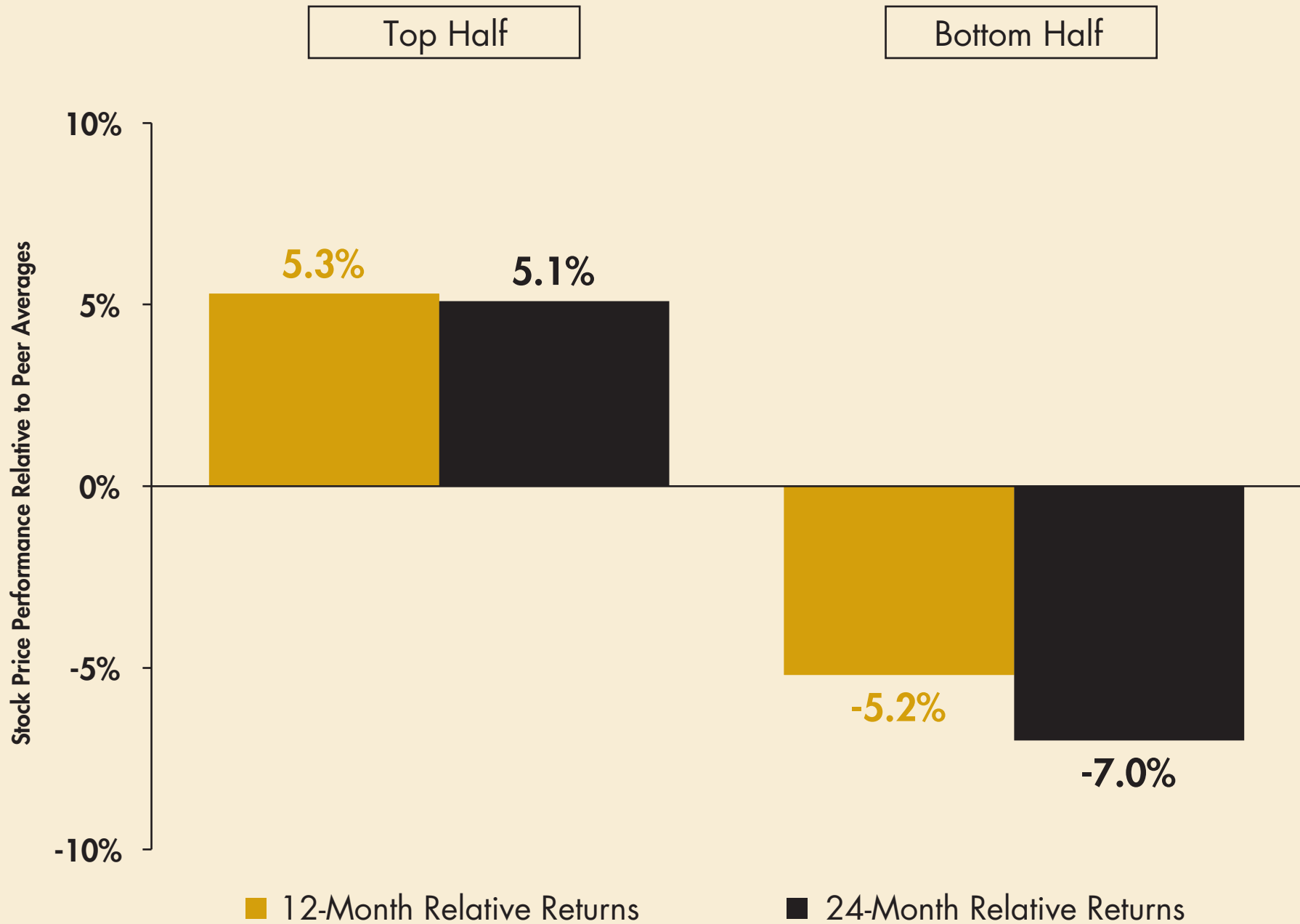
Top Quartile

Bottom Quartile



**Source: EnergyPoint Research surveys since 2004.*

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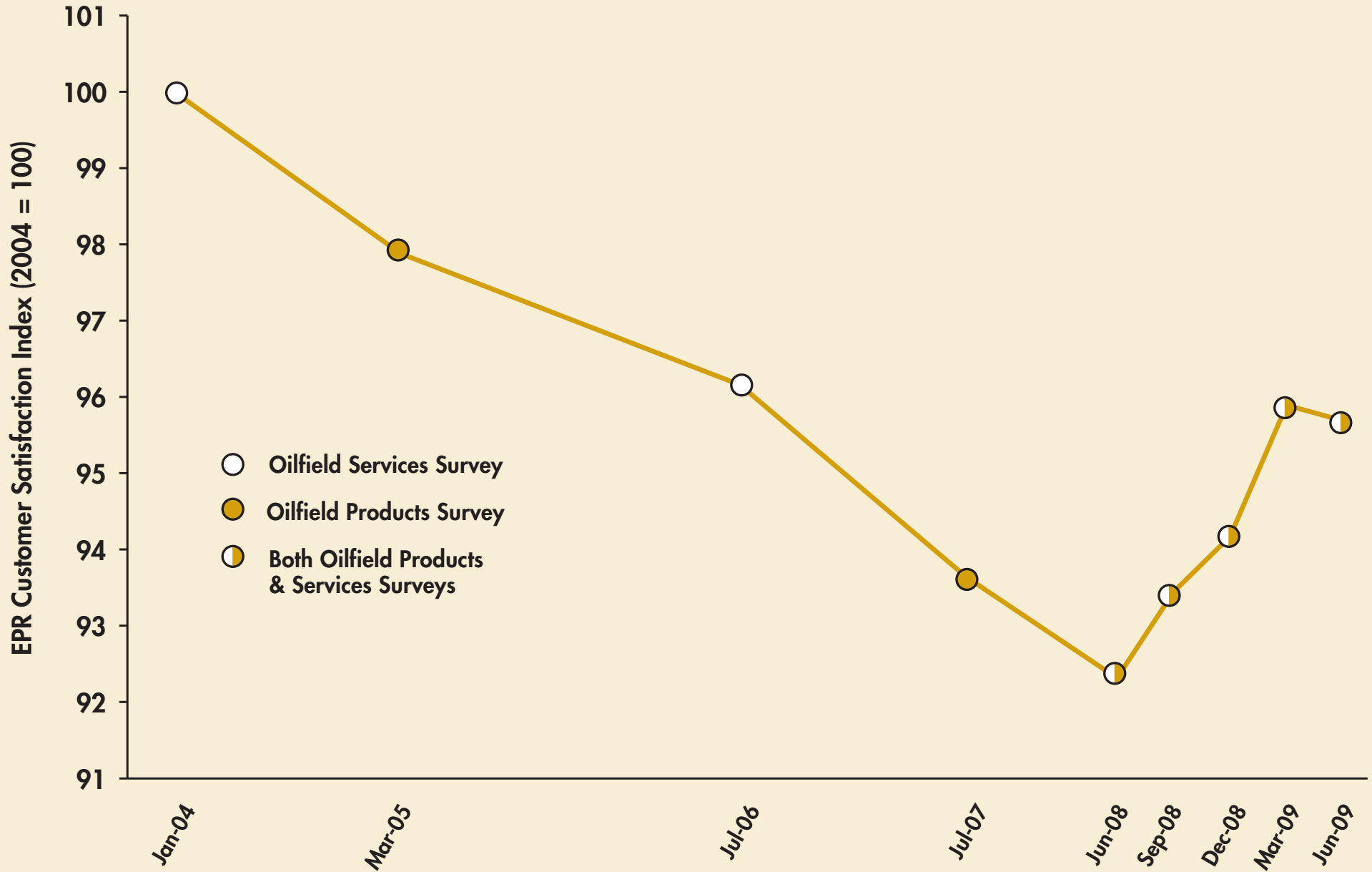
**Stock Price Returns of Publicly Traded U.S. Listed Oilfield Suppliers
Rated in EnergyPoint Research's Customer Satisfaction Surveys**

	Supplier Name	Survey End Date	Ticker	Total Sat Quartile	Relative Total Satisfaction Rating	12-Month Relative Return	24-Month Relative Return	12-Month Relative Return	24-Month Relative Return	12-Month Relative Return	24-Month Relative Return	
Top half	Top Quartile	Newpark Resources	7/5/07	NR	1	0.71	-33.2%	-21.6%	10.7%	18.0%		
		Smith International	7/5/07	SII	1	1.43	12.5%	-16.1%				
		Core Laboratories	7/5/06	CLB	1	0.57	50.5%	73.2%				
		ENSCO International	7/5/06	ESV	1	0.97	22.3%	17.2%				
		Helmerich & Payne	7/5/06	HP	1	0.69	1.2%	85.5%				
		Noble Drilling	7/5/06	NE	1	0.72	13.3%	16.3%				
		Rowan Companies	7/5/06	RDC	1	1.04	-1.9%	-26.6%				
		Grant Prideco	3/18/05	GRP	1	0.43	2.3%	2.0%				
		Lufkin Industries	3/18/05	LUFK	1	0.78	64.3%	64.1%				
		Natco Group	3/18/05	NTG	1	0.69	52.8%	67.6%				
	Smith International	3/18/05	SII	1	0.68	-45.8%	-40.4%					
	Grey Wolf	1/16/04	GW	1	0.69	-5.3%	-20.2%					
	Helmerich & Payne	1/16/04	HP	1	0.66	-9.6%	32.2%					
	Precision Drilling	1/16/04	PDS	1	1.07	5.6%	22.0%					
	Smith International	1/16/04	SII	1	0.47	4.1%	-38.3%					
	Transocean	1/16/04	RIG	1	0.64	38.7%	71.3%					
											5.3%	5.1%
		Dril-Quip	7/5/07	DRQ	2	0.53	-1.7%	20.4%				
		Halliburton	7/5/07	HAL	2	0.44	24.6%	0.6%				
		Baker Hughes	7/5/06	BHI	2	0.39	-11.6%	-41.4%				
	BJ Services	7/5/06	BJS	2	0.41	-42.1%	-62.6%					
	Halliburton	7/5/06	HAL	2	0.36	-25.2%	-8.4%					
	Parker Drilling	7/5/06	PKD	2	0.28	41.8%	-19.3%					
	Smith International	7/5/06	SII	2	0.48	18.0%	39.1%					
	Superior Energy Services	7/5/06	SPN	2	0.28	3.9%	9.7%					
	Baker Hughes	3/18/05	BHI	2	0.19	-11.5%	-38.9%					
	Dril-Quip	3/18/05	DRQ	2	0.07	17.8%	51.5%					
	FMC Technologies	3/18/05	FTI	2	0.15	-20.5%	11.4%					
	Halliburton	3/18/05	HAL	2	0.15	-4.7%	-36.1%					
	Schlumberger	3/18/05	SLB	2	0.02	6.9%	-1.8%					
	Baker Hughes	1/16/04	BHI	2	0.15	-1.5%	-16.3%					
	BJ Services	1/16/04	BJS	2	0.26	-7.1%	-16.5%					
	Noble Drilling	1/16/04	NE	2	0.26	10.9%	-16.0%					
Bottom Half	Bottom Quartile	Baker Hughes	7/5/07	BHI	3	0.31	-25.4%	-16.4%	-7.6%	-15.4%		
		BJ Services	7/5/07	BJS	3	0.14	-13.9%	-10.8%				
		Cameron International	7/5/07	CAM	3	0.39	21.7%	16.4%				
		Oceaneering	7/5/07	OII	3	-0.07	10.7%	25.6%				
		Schlumberger	7/5/07	SLB	3	0.05	-6.5%	4.1%				
		Weatherford Int'l	7/5/07	WFT	3	-0.06	33.2%	7.7%				
		Basic Energy Services	7/5/06	BAS	3	-0.36	-34.8%	-44.1%				
		Precision Drilling	7/5/06	PDS	3	0.24	-34.5%	-47.7%				
		Pride International	7/5/06	PDE	3	0.23	3.5%	-8.4%				
		Schlumberger	7/5/06	SLB	3	0.22	19.0%	14.3%				
	Tesco Corp	7/5/06	TESO	3	-0.29	28.0%	-5.4%					
	Transocean	7/5/06	RIG	3	0.25	15.7%	30.4%					
	Weatherford Int'l	7/5/06	WFT	3	-0.11	-7.0%	28.0%					
	BJ Services	3/18/05	BJS	3	-0.10	-36.5%	-75.4%					
	Hydriil	3/18/05	HYDL	3	-0.09	-41.0%	-21.6%					
	Precision Drilling	3/18/05	PDS	3	-0.41	-21.1%	-71.0%					
	Diamond Offshore	1/16/04	DO	3	0.08	65.4%	144.7%					
	GlobalSantaFe	1/16/04	GSF	3	0.00	-33.6%	-68.2%					
	Halliburton	1/16/04	HAL	3	-0.17	21.6%	31.7%					
	Parker Drilling	1/16/04	PKD	3	0.03	-13.7%	105.1%					
Schlumberger	1/16/04	SLB	3	-0.14	-10.1%	-24.3%						
										-5.2%	-7.0%	
	FMC Technologies	7/5/07	FTI	4	-0.32	52.6%	36.4%	-7.6%	-15.4%			
	National Oilwell Varco	7/5/07	NOV	4	-1.39	34.0%	0.0%					
	Oil States International	7/5/07	OIS	4	-0.53	13.9%	-2.0%					
	Technip-Coflexip	7/5/07	TKPPY.PK	4	-0.79	-20.8%	5.2%					
	Tesco	7/5/07	TESO	4	-0.81	-27.3%	-34.2%					
	Diamond Offshore	7/5/06	DO	4	-0.77	12.2%	25.2%					
	GlobalSantaFe	7/5/06	GSF	4	-0.46	3.6%	**					
	Grey Wolf	7/5/06	GW	4	-1.16	-17.9%	-25.9%					
	Key Energy Services	7/5/06	KEG	4	-0.53	-0.7%	-28.0%					
	Nabors Industries	7/5/06	NBR	4	-1.46	-21.4%	-1.7%					
	Patterson-UTI	7/5/06	PTEN	4	-0.66	-26.3%	-18.4%					
	Unit Drilling	7/5/06	UNT	4	-1.22	-9.6%	-0.9%					
	Cooper Cameron	3/18/05	CAM	4	-0.53	-15.3%	28.7%					
	Varco	3/18/05	NOV	4	-1.50	-44.7%	-36.9%					
	Weatherford Int'l	3/18/05	WFT	4	-0.55	-18.5%	-33.1%					
	ENSCO International	1/16/04	ESV	4	-1.05	-13.4%	-42.3%					
	Key Energy Services	1/16/04	KEG	4	-1.28	-24.9%	-93.6%					
	Nabors Industries	1/16/04	NBR	4	-0.67	-12.2%	-41.4%					
	Patterson-UTI	1/16/04	PTEN	4	-0.59	-19.1%	-8.1%					
	Weatherford Int'l	1/16/04	WFT	4	-0.48	4.2%	-21.7%					

* Source: Yahoo.com financial quotations and EnergyPoint Research, Inc. Stock prices adjusted for splits and dividends.

Oilfield Customer Satisfaction

Showing Recovery after Hitting Bottom in 2008



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