

Features of the marketing strategy of oil and gas companies in exploration drilling

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Abstract. The implementation of national and regional programs for the development of new oil and gas provinces of Eastern Siberia poses the challenge of increasing geological exploration. The current drilling service companies' market structure, as well as the strategic task of search and exploration effectiveness requires qualitatively new approaches for choosing a contractor. The proposed strategy to select a contractor based on comprehensive analysis of certain groups of industrial, financial, infrastructural criteria allows not only to optimize the costs of exploration activities, but also to minimize preventively the risks of a poor geological exploration. The authors' SWOT- analysis of the marketing strategy of "Gazprom neft" for choosing a contractor outlined the problem of imperfection of the Russian legislation in the sphere of activities of service companies in the oil and gas sector.

1. Introduction

According to the draft Energy Strategy of Russia until 2035, the Program of socio-economic development of the Far East and Trans-Baikal region and a number of regional programs, the intensification of exploration drilling is planned in Eastern Siberia in the Yurubcheno-Takhomskoye zone and Irkutsk region during 2013-2017. In Western Siberia, the largest amount of work may be conducted in new production fields in Yamal, particularly, in the Bolshekhetskaya depression. In the Sakha (Yakutia) Republic further detailed exploration of the Chayandinskoye field is planned to increase the available stocks and long-term filling of "Power of Siberia" pipeline. As a result, by 2020-2022 forecast all-Russian exploratory drilling stabilize at 1.12-1.18 million m³ per year.

According to the development strategy "Gazprom neft" must produce by 2020 100 million tons of oil equivalent (TOE) per year, and proven oil reserves are to be increased up to 2.2 billion tons mainly due to the growth of investment in a geological exploration in new oil and gas provinces of Eastern Siberia. In 2014 the construction of 78 exploration wells with a total progress of up to 225 thousand linear meters is planned, and in 2015 32 billion rubles are to be invested in exploration.

Thus, the company faces the challenge of determining the strategy of choice of a service company according to the type of work - "drilling", which is based on a deep analysis of the exploration drilling market.

2. The problem of choosing a service company to conduct exploration drilling

The analysis on such criterion as a linear meterage of penetration shows that leading companies in the exploration drilling market are the intracorporate structures of Russian oil and gas companies, among which the share of OJSC "Surgutneftegas" accounts for 28%, OJSC "LUKOIL" for 23%, OJSC "Rosneft" for 25%. The high share (17%) belongs to the drilling company "Eurasia".



Choosing a contractor for service is difficult by a number of problems, such as:

- long-term payment for the completed orders by the customer;
- severe dumping by low-skilled service providers and small contractors, reasoned by trying to "stay afloat" in the current economic and political conditions;
- gap between Russian and foreign companies in terms of technical equipment, technology, implementation of scientific developments, financial opportunities and skills training;
- lack of experience by many contractors in mining and geological conditions in the new oil and gas provinces of Eastern Siberia;
- substandard study of the issues related to the drilling process, such as the selection of drilling fluid, delivery logistics of personnel and equipment to the place of work, procurement activities.

In addition, the task of "improving the reproductive efficiency of reserves", determined by the state [1, 2] actualizes the improvement of exploration efficiency in a rapidly changing macroeconomic environment, which is an additional parameter in the contractor selection.

The efficiency of prospecting is determined by the following characteristics [3, p.193].

1. Geological:

- a) reserves growth in absolute and relative terms;
- b) excess reserves to the production of hydrocarbons.

2. Economical:

- a) expenses involved in hydrocarbon reserves growth per 1 m of deep drilling;
- b) expenses involved in a ton of oil treating.

3. Informational: obtaining the additional information about the structure of the oil and gas-bearing area, deposits, amount of reserves and resources, etc.

3. The marketing strategy of "Gazprom нефт" in choosing a service drilling company

The problem of selecting a contractor is provided for, in particular, by the implementation of the tender system, which encourages oil and gas companies, and especially small and medium-scale ones to choose the company that will offer the lowest service price that has repeatedly led to the delay in the service work realization and failures in drilling.

As a result "Gazprom нефт" has launched a peculiar matrix of exploration. This matrix includes the following successive stages: prospecting, assessment, processing and production, each stage of which is characterized by its specific objectives and goals filled with special content and accompanied by different levels of integration of units of each block, and thus the split-level integration of subsidiaries.

One element of the implementation of this matrix is a marketing strategy for choosing a contractor to conduct drilling operations as the exploration drilling success depends not only on the well-site choosing, but also on a competent technical execution of the work.

Marketing strategy includes a list of systemized software criteria (table 1) to service companies, which are based on the requirements from the customer to the conducted work and on the provisions of normative legal acts of various legal force governing this activity.

According to this marketing strategy for choosing a contractor the work at the facilities of the customer and third-party sites is estimated, technical audit is carried out, human potential is verified. Special attention is paid to working conditions, climatic zoning and distance from the transport and industrial infrastructure. Significant role is played by the cost of well construction set by contractors. Broader criteria is presented in Table 1. As a result, a list of qualified contractors is made up.

Table 1. List of criteria for contractors.

General information about the contractor organization	Location of head office Average annual volume of work carried out for one half of the current year Licenses and/ or other work permits Company years Work experience with entities within the group of companies OJSC "Gazprom neft" Average annual volume of work carried out for one half of the current year at current prices Affiliations with other oil companies
Experience	Experience in the oil and gas industry in Russia Positive reviews from customers for the last 3 years Number of wells, where oil, gas and water show or open well flowing occurred for the last 3 years
Financial performance (data, ratio)	Nominal capital Receivables and payables Availability of current capital to ensure the production of works Tax due
Logistics, commissioning, mobilization	Day-and-night dispatcher service Incurrence of liabilities on transportation of all equipment, materials, chemicals Organization to ensure continued production of well construction
Drilling equipment	Availability of drilling rigs (including mobile units) by types and hoisting capacity Average period of rig operation Facilities of the rig Program of mud system, cementing, etc.
Providing industrial, environmental, fire and occupational safety	Availability of necessary permits to carry out the activities, as well as other permits, required by legislation in the field of industrial, fire, environmental safety and occupational health.
Staff	Total number of office and field drilling engineers eligible to manage mining operations Share of engineers and geologists in personnel with experience in exploration drilling from 3 to 10 years The availability of personnel with experience in formation tester. Availability of personnel training programs The number of available crews

According to this strategy the work at the customer's sites and third-party sites is estimated, technical audit is carried out, human resources is verified. Special attention is paid to operating conditions, climatic zoning and remoteness from the transport and industrial infrastructure. The cost of well construction by contractors plays a significant role. As a result, a list of qualified contractors is specified.

However, the implementation of this program for the selection of companies is accompanied by a number of difficulties, including:

a) lack of sufficient competitiveness in the market of contractor organizations in operating regions where, in particular, out of 23 contractor organizations, claimed to participate in 2013, were recognized as qualified only 16 (70%);

b) underestimation of the planned cost of some wells, depending on the geological stress and geographical conditions, which led to significant changes in the final cost of the work.

As a result, for 2014 a new system of contracting was suggested by authors that allowed defining the following tasks within the developed strategy.

1. Expand the range of qualified contractors, and as a result in 2014 out of 25 contractors 19 (76%) were recognized as qualified. Positive dynamics is provided by involving contractor organizations conducting their business in the oil and gas provinces of European Russia.

2. Test the planned cost at the preparation stage of investment projects and formation of a business plan aimed at reducing the unit cost of construction of some wells by reducing the project depth and geological stress. In addition, the important point was to compare the average cost of one linear meter of penetration rate, which is affected by many factors specific to the East Siberian petroleum provinces (table 2):

- a) "a variety of reservoirs;
- b) the complex structure of the development of flow properties of the reservoir" [4];
- c) industrial and infrastructural underdevelopment of the East Siberian region;
- d) macroeconomic conditions (inflation, economic growth, exchange rates, etc.).

Table 2. Average cost of 1 linear meter of penetration rate in OJSC "Gazprom нефт", thousand rub.

Subsidiary organization	2012	2013	2014 (plan)
Gasprom нефт – Angara, Ltd.	N.A.	148,6	173,05
Gasprom нефт – Orenburg	N.A.	40,91	43,23
Messoyahaneftegas, Jsc	90,85	90,85	90,85
Tomskneft VNK, Jsc	41,32	41,32	41,32
Gasprom нефт- Vostok, Ltd.	45,83	45,83	45,83
Gasprom нефт- Khantos, Ltd.	38,11	38,11	38,11
Gasprom нефт- Noyabrskneftegas, Ltd.	41,58	41,58	41,58
Gasprom нефт- Muravlenko, Ltd. (branch)	43,76	43,76	43,76

3. One qualified contractor is eligible to receive no more than 4 wells in accordance with the criterion of the minimum price. This measure is aimed to maintain competitiveness in the market in the field of drilling.

4. Extend the contractual relations on the basis of the non-competitive selection, taking into account only the positive experience of the previous season.

Thus, this marketing strategy is the most appropriate in the present conditions, since its implementation will optimize the cost of exploration drilling and reduce the probability of risk.

4. SWOT-analysis of the marketing strategy of "Gazprom нефт"

Taking into account the macroeconomic, macroenergetic, innovation, integration processes as in both the global and national economies, as well as in the oil and gas industry, the SWOT- analysis presented in table 3 was conducted by the authors [5, 6, 7]. This analysis allows not only to determine the further development of cooperation with contractors, which is especially important in the terms of exploring new license areas, but also to identify spheres that require a reconstruction.

Table 3. SWOT-analysis of "Gazprom нефт" marketing strategy.

Strengths	Weaknesses
1) Faithfulness of the Customer - by holding full competitive selections in 2009- 2013 2) Provides the attractiveness of "Gazprom oil" as a customer. 3) The cost of well constructions led to the market level. 4) Competitive environment and monitoring of contractors' activities are performed, understanding of the possibilities provided by contractors. 5) A framework agreement has been developed and implemented, pricing model has been unified. 6) Ratings of contractors have been implemented. 7) Implementation of automated selection of contractors.	1) Significant growth in the exploration drilling in all companies of the Russian Federation with the absence of new drilling contractors causes an increasing demand for drilling rigs and a significant increase in the cost of services. 2) Delay of project documentation and approvals from the Customer. 3) Inappropriateness of planned costs with a technical project in lots, underestimation of wells planned cost at a formation stage of the exploration program and business plan. 4) Poor equipment and undermodernization of Contractors. 5) Seasonal work performance.
Opportunities	Threats
1) Additional economic benefits due to the proper formation of lots. To get a discount at the auction by creating of lots, it is necessary to apply the approach to the formation of lots on the basis: one lot – one well. 2) Formation of a strategy of commercial negotiations. 3) Expanding the range of qualified contractors at the stage of training. 4) Ability to attract extra contractors on a competitive selection. 5) Ability to preserve (maintain, keep) pricing of existing contracts by some contractors (counteragents).	1) Unbalanced distribution of volumes and, as a consequence, the disruption of schedule. 2) Price increase due to the tightening (toughening) of a standard contract – implementation of the unified scale of penalties and rating of the contractors. 3) Changing the production program and the technical component. 4) Effect of climate conditions. 5) Logistic problems.

5. Conclusion

Thus, a significant role in shaping the weaknesses of the marketing strategy plays the imperfection of Russian legislation, governing service organizations in many areas of oil and gas sector. In addition, organizational and economic measures should be taken in the field of technological and technical renovation of domestic service organizations. It is necessary to improve the legal regulation of relations between oil and gas companies and service companies. Thus first of all, the establishment of effective legislation can significantly improve the skills of contractors as well as the effectiveness of exploration.

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