

Petroleum Development Oman Should-Cost Modelling

Petroleum Development Oman (PDO) is the foremost exploration and production company in the Sultanate. PDO accounts for more than 70% of the country's crude oil production and nearly all of its natural gas supply.

PDO engaged Charles Kendall Australia (CKA) to develop several should-cost models for complex areas of spend.

Should-cost models are tools that provide a clear understanding of the specific economics behind manufacturing a particular product or service. Benefits range from improving efficiencies and delivering substantial costs savings (without cutting back on scope, quality, capabilities or suppliers' profits), to improved supplier relationships.

The Challenge

- Developing accurate should-cost models with restrictions such as limited data availability and no direct interaction with PDO's contractors.
- Developing should-cost models for complex areas of spend across several contractors.
- Developing models for multiple layers and interactions of the supply chain.
- Delivering the models in a short time frame.
- Preparing the ground for fact-based negotiations with contractors.

Our Approach

- Reviewed and analysed PDO's expenditure, existing pricing schedules, contractor's financial data, asset and vehicle lists, responses to a request for information, etc.
- Leveraged Charles Kendall Group and CKA's market knowledge and understanding of the oil & gas industry and supply base in Oman.
- Mapped out the supply chain for each service and identified all cost drivers.
- Determined target prices and compared them against PDO's current pricing.
- Estimated potential cost reduction opportunities.

Outcome

The deliverables included:

- producing the should-cost models in an Excel format that could be updated by PDO;
- a presentation of the should-cost models to PDO; and
- a report including an overview of the potential savings, general findings and recommendations, assumptions, the should-cost models results and the methodology followed.

The models provided PDO with in-depth insights into the cost structure of the services in scope and target pricing for those services which allowed PDO to enter into fact-based contractor negotiations.

Industry

Mining, Oil & Gas

Service

Procurement

Region

Middle East