

## Sustained Unit Cost Reduction in Oil & Gas Requires Rethinking How Work Is Done



**D**ownstream executives are facing growing pressure to demonstrate cost improvement that is both credible and durable. Margin volatility driven by economic and geopolitical uncertainty, energy prices, feedstock uncertainty, tightening labor markets, and rising regulatory challenges has made cost performance a board-level priority. Yet many organizations continue to rely on traditional cost-cutting programs that deliver short-term benefits but fail to hold over time. The result is a recurring cycle of spending reduction and deferral initiatives that reduce nimbleness and flexibility, damage customer delivery and satisfaction, and inhibit a business's ability to meet commitments and respond to upturns.

At EFESO, we see this challenge across the global Oil & Gas industry. Traditional cost reduction programs focus mainly on delivering short-term savings by reducing headcount and discretionary spend, and deferring expenses. Sustained Unit Cost Reduction requires a different mindset.

In our experience, leading companies achieve real results by focusing on changing the way work is done by deploying best practice work processes enabled by an effective organizational design and a robust high-performance management system. The best-run companies focus on structurally and systematically removing cost from the system. The resulting savings are demonstrably measurable, embedded, repeatable, and protected over the long term.

### Why Traditional Cost Reduction Falls Short

“Based on a recent EFESO study conducted in partnership with IndustryWeek, more than one third of companies (35%) have set drastic cost takeout targets this year, and 51% report their goals are more aggressive than last year. Yet a quarter of respondents cite overly aggressive cost takeout goals as a direct barrier to success. Across-the-board targets, headcount reductions, or discretionary spending cuts may improve near-term results, but they rarely address the root causes of cost inefficiency. Top-down cost cutting approaches add risk and typically are not sustainable in the longer term. In many cases, these actions introduce new risks to safety, reliability, and compliance, within twelve to eighteen months.

**An executive from a major refinery client added:** “Every time we cut costs across the board, they come back just in different places because we never fixed what was driving them in the first place. You can take cost out with a mandate, but if you don't change the way work gets done, the cost always finds its way back within a year”

We frequently see cost reduction programs that underestimate the impact on work design, organizational structure, and decision rights. Production output becomes less stable and unplanned outages rise. Reliability suffers and maintenance backlog grows. Engagement and morale declines, contributing to productivity loss. Support functions compensate for gaps created elsewhere in the organization. The organization adapts, but not in the most effective way that sustains savings. This is why leaders increasingly ask the question:

Are we guaranteed to reach our savings targets, will they sustainably lower our cost-to-serve, and will they still be there next year?

### EFESO's Sustained Unit Cost Reduction Approach

EFESO's approach to Sustained Unit Cost Reduction is grounded in operations process transformation across maintenance, reliability, operations, quality and logistics. We bring proven best work practices and organizational expertise, focusing on redesigning how work is performed so cost is permanently removed while operational performance improves. Through partnering with the operator, EFESO works to grow capabilities within the organization to help ensure the changes are sustainable.

### Our process is built to deliver cost optimization in complex continuous process environments:

- **Anchor savings targets to earnings and operational reality** while aligning cost objectives to financial commitments, margin and competitive pressures, and site-level constraints to ensure targets are both ambitious and achievable.
- **Diagnose structural cost drivers across the value chain**, identifying value-adding versus non-value-adding costs in operations, maintenance, logistics, and supporting capital and other corporate allocated functions, such as engineering, reliability, process safety, and technology COEs.
- **Analyze current end-to-end work processes versus best practices** at the plant and enterprise level to uncover and quantify non-value-adding activities.
- **Redesign processes and deploy proven downstream operations best practices** to remove cost structurally. Identify the most effective and efficient work process with input from frontline staff, then formalize and promote it as the standard.
- **Implement fit-for-purpose operating and organizational models** by redefining roles and streamlining organizational structures to ensure accountability and drive efficient work execution.
- **Embed performance management** and establish clear ownership, KPIs, and management routines that lock in savings and prevent cost creep. In-person visual performance management with automated dashboards works best.



- **Ensure savings realization and sustainability**, tracking benefits at the operational level, validate financial impact, and reinforce new ways of working to guarantee savings are delivered and sustained.
- **Future-proof the organization** by deploying change leadership, lean / continuous improvement techniques and effective on-the-job coaching to ensure successful implementation in the near term and build ongoing agile and adaptive organizational capabilities.

### From Cost Reduction to Cost Certainty – Real World Examples

In our experience, clients who have taken a structured approach have been able to achieve significant cost reduction targets while sustaining those gains.

For example, the new CEO of a major global petrochemical company facing intense competitive pressure and cost challenges quickly realized the path to increased profitability was to reinvent manufacturing operations across the enterprise to significantly reduce cost to serve. Given the aging workforce and attrition, although the company had standards, they had lost their way. Their ambition was a standard best in class simplified operating model across their fleet with one way to operate, improve and maintain plants while increasing reliability and quality. Key employees were engaged and leveraged EFESO's cost transformation methodology to accelerate deployment and culture change that resulted in a ~\$60M cost reduction and improved operational performance.

Another example of an application of EFESO's cost transformation methodology at a major downstream operation delivered ~\$20M in annual fixed cost savings. This was achieved by eliminating productivity barriers for maintenance employees and contractors which improved productivity by 50%. As a result, backlogs were reduced which enabled a ~10% reduction in maintenance workforce. Additionally, a ~25% reduction in contractor headcount was achieved via implementation of standard work, Lean concepts, and elimination of duplicate activities, without compromising performance.

### Cost Out for Lasting Advantage

In an industry defined by volatility, earnings scrutiny intensifies, and competitive pressure accelerates. Sustainable Cost Out enables downstream companies to move beyond short-term fixes to build lasting competitive advantages.

Executives need confidence that announced savings will be delivered, sustained, and visibly reflected in financial performance. That confidence cannot be achieved from one-time reductions but comes from fundamentally changing how work gets done.

### Authors



Jorge Mastellari, Senior Partner



CJ Renegar, Partner



Alan Free, Senior Vice President



Lori Fremin, Senior Advisor