



**Unlocking Growth with Strategic
Cost Reduction in Oil & Gas**

At a Glance

The Problem:

In today’s margin-pressured environment, most refining and petrochemical companies recognize the need to improve productivity and reduce costs. However, many respond solely with reactive, fragmented, and unsustainable cost-cutting initiatives that can impair growth. Rather than settling for superficial savings, companies in the oil and gas industry must structurally reshape their cost base to unlock long-term enterprise value. This means pursuing cost optimization in tandem with value creation.

The Solution:

To achieve this, refining and petrochemical firms are leveraging a set of corporate capabilities that rigorously address both short-term cost-savings opportunities and long-term strategic growth.

These include:

- Data-Backed Diagnostics
- Zero-Based Budgeting
- Operational Transformations
- Frontline Development
- Smart Footprint Rationalization
- Sustainable Value Tracking

By applying these capabilities, organizations can systematically target common cost areas, pull specific levers, and deploy tailored improvement methods. The most immediate and substantial savings are typically realized in operations and maintenance and supply chain.

Other areas, while requiring more time to execute, yield meaningful savings over the long term—such as capex optimization and reliability. Additionally, current events and the organization's structure also may create opportunities for significant cost reduction in other areas.

When taken together, these areas represent a powerful opportunity for overall cost reduction. Refinery and Petrochemical companies have achieved total savings of at least 20–25% of operating expenditures.

Examples of Impact

\$12M

A refinery applied lean thinking to optimize maintenance workflows and reduced contractor headcount by over 60%, saving \$12 million while boosting utilization.

\$23M

A refining and petrochemical company improved utilization by 7% by applying a reliability maturity assessment and rapid reliability program, resulting in a \$23 million margin capture.

40%

By leveraging lean construction methodologies and eliminating delays, a midstream operator achieved cost savings of 40% in their tank management program.

Even in mature businesses with previous cost initiatives, structured and strategic approaches continue to uncover savings while enabling reinvestment. Smart cost takeout is both an operational lever and a long-term value driver.

Unlocking Growth with Strategic Cost Reduction in Oil & Gas



Is Your Organization Cutting Costs or Unlocking Value?

In today’s margin-pressured environment, most refining and petrochemical companies recognize the need to improve productivity and reduce costs. However, there is a heightened sense of urgency given the impact of tariffs and overall economic uncertainty. Rising material, labor, and logistics costs and tighter crack spreads are impacting earnings and squeezing profits. A knee-jerk response is to solely “cut costs,” but such initiatives are usually reactive, fragmented, and ultimately unsustainable and damage potential for growth.

What’s needed to address today’s challenging business conditions is cost optimization that goes hand in hand with value creation and positioning for growth. A smarter cost takeout approach is strategic, meaning it is aligned with long-term business goals and growth plans. It is also data-driven, as it is built on proprietary benchmarks, activity-based cost models, and operational diagnostics. Furthermore, it is sustainable, because it is embedded into ways of working rather than being limited to adjustments in budget lines. The true opportunity lies not in superficial savings, but in structurally reshaping the cost base in order to unlock long-term enterprise value.

Value-Driven Cost Reduction

Opportunities to reduce costs in the oil and gas industry range from quick hits that deliver much-needed near-term relief to strategic decisions that drive long-term savings and value. These savings are found in the cost of goods sold, especially labor and overhead, as well as in operating expenses that impact operating profitability and EBITDA, such as administrative costs.

Corporate capabilities being wielded to rigorously address all potential opportunities today while preparing for a value-driven future include:

Sustainable Value Tracking:

Every initiative undertaken should be measured by its tangible EBITDA impact, with operational KPIs clearly translated into financial terms. This requires robust financial models, performance dashboards, and incentive alignment that reinforce cost discipline and continuous improvement across functions. These also provide the capability to govern, track, and sustain value capture well into the future.

Data-Backed Diagnostics:

Analysis of financial, operational, and Solomon Benchmarks data uncover inefficiencies at a granular level, for example from procurement patterns to labor productivity. Cost drivers of these asset-intensive organizations are mapped across functions and linked to performance benchmarks, enabling fast identification of where inefficiencies exist. This is often supported by AI capabilities, allowing interventions that quickly deliver the greatest impact.

Smart Footprint Rationalization:

The size and shape of a company, including facility roles, cost-to-serve, labor economics, and asset ROI, is examined with footprint rationalization. As a result, proactive measures such as idling underutilized assets, divesting non-core operations, or shuttering inefficient facilities are essential to correcting market imbalances, restoring pricing discipline, and designing an optimized network that aligns with strategic goals.

Zero-Based Budgeting (ZBB):

For refinery operators, LNG operations, or midstream logistics firms—often base their budgets on prior years, which in turn shapes their current budgets, expenses, and overall costs. In contrast, ZBB erases that approach and instead encourages leaders to build their budgets from the ground up, aligning spend with purpose and eliminating legacy inertia. Budgets are reconstructed and justified line by line, item by item. This creates discipline in managers and leaders to question everything and the assumptions therein.

Frontline Development:

The retirement of seasoned refining and petrochemical operators are leaving behind skills gaps, as less experienced employees often lack the knowledge to spot improvement and cost-saving opportunities. Therefore, building a highly competitive workforce and supportive systems like daily and visual management establishes ownership on the floor as engaged frontline staff make real-time decisions throughout the day that improve operations reliability and control costs (less overtime, fewer repairs) while operations are underway.

Operational Transformation:

Lean tools, OpEx best practices, integrated logistics redesign, and process redesign structurally reduce effort, unlock efficiency, reduce costs, and create sustainable operational discipline. The goal is not just fewer people or lower spend; instead, it is increased equipment availability and operational reliability and higher output. Application of standard work, meaning the current best, safest, most efficient way to work, then sustains improvements and cost savings going forward. Simplifying, codifying, and, where possible, digitizing standards can significantly boost productivity, improve cost predictability, and accelerate onboarding amid today's critical skills shortage.

Cost-Saving Targets, Levers, and Methods

Refining and Petrochemical companies share common cost structures and can pull levers for cost reduction specific to each area, such as the use of shared services and consolidation to address SG&A costs. Levers are supported by a wide range of improvement methods tailored to each cost category, like OEE tracking and loss-tree analysis to support preventive and predictive maintenance practices.

The largest and fastest savings are found in areas such as operations and maintenance and supply chain (see Exhibit 1). Other areas take longer to execute but also can deliver sizable savings, such as capex optimization. Additionally, some areas offer substantial cuts based on current events and organizational structure. Taken together, these present significant overall savings.

The primary objective in targeting these areas is cost savings. However, this does not necessarily mean headcount reduction. In fact, true cost optimization may involve preserving, or even expanding, staff to unlock and sustain value. For instance, enhancing procurement processes rarely leads to large layoffs, and boosting output typically requires maintaining current personnel to support higher volumes.

In dynamic business environments, workforce strategy must balance financial goals with company culture. The following scenarios illustrate typical headcount implications:

- **M&A-driven organizations:** Redundant support functions are identified and trimmed. Workforce reductions are expected in order to eliminate overlap.
- **Performance-driven restructurings:** When targets aren't met, staffing levels are aligned with current financial realities to maintain core operations, shore up cash flow and stabilize the business.
- **Good-to-great transformations:** Best-practices deployment, automation, and digitization investments enable and accelerate productivity gains, which may lower headcount.
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- **Rapid growth and new-market entry:** Greenfield expansions or new business units demand aggressive hiring (e.g., new renewable fuels or LNG export facilities).

Cost Takeout Conclusions

Refinery and Petrochemical companies that routinely analyze and optimize cost structures and establish new operational strategies and programs to drive performance improvement, position themselves for growth. They achieve quick wins such as immediate cost reductions and operational improvements. In addition, they enable longer-term benefits through transformed processes, systems, and footprints that ensure ongoing value-add and cost containment. Most importantly, they achieve cost savings of up to 20–25% of OpEx spending, which boosts the bottom line and puts them at a competitive advantage.

Specific savings can include:

23–37%

Contractor optimization of 23–37%

20–40%

Procurement and material cost reductions of 20–40%

15–20%

SG&A cost reductions of 15–20%

20–25%

Logistics and supply-chain cost reductions of 20–25%

20–40%

Operational cost reductions of 20–40%

20–40%

Working capital reductions of 20–40%

15–20%

Inventory management and material cost reductions of 15–20%

25–30%

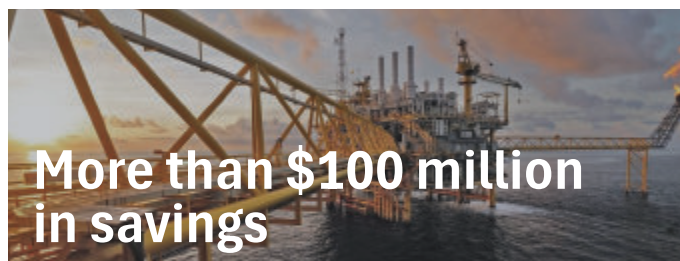
Contractor and rentals cost reductions of 25–30%

15–20%

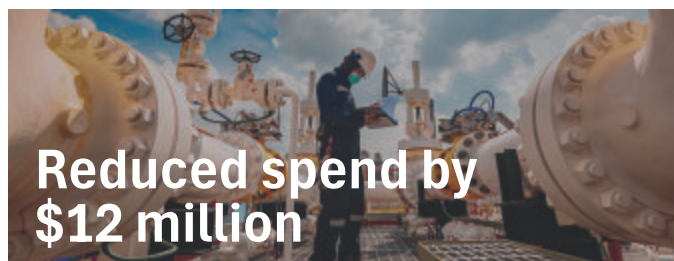
Maintenance spend reductions of 15–20%



Cost optimization should be viewed not merely as a response to pressure but rather as a catalyst for transformation. Companies in the oil and gas industry are achieving short- and long-term savings and bottom-line impacts beyond what they previously thought possible:



Lean Transformation across a Refinery Firm: Multiple lean initiatives were undertaken at the largest site of a refinery company, as well as at two additional sites. The initiatives focused on waste elimination, visual management, and front-line KPIs in the maintenance areas. Workflow improvements reduced contractor headcount from 900 to fewer than 350 at one site and resulted in more than \$100 million in savings (13% of total OpEx).



Contractor Management Reduces Costs: A western U.S. refinery optimized contractor spend by increasing productivity and implementing contractor management best practices. The company leveraged lean thinking methodologies and innovative cap-and-trade methodologies to reduce annual contractor spend by \$12 million.



Frontline Teams Focus on Equipment Reliability: A 300-plus barrel/day refinery implemented weekly root-cause analysis and problem-solving events by frontline equipment teams to increase unit availability by 31% in six months. The engagement and empowerment of frontline staff in operations resulted in margin increase of \$45 million.



Even during tough times when the most obvious cost areas have already been targeted, opportunities remain to deliver needed savings without inhibiting growth enablers. A smarter cost strategy is a transformation that allows refining and petrochemical companies to enter the next upcycle stronger, faster, and more focused than competitors. The emphasis should be on building a leaner, more resilient organization that is fully prepared for what comes next in the volatile oil and gas industry.

Appendix

Exhibit 1. Typical Areas for Highest Cost Savings

AREA	LEVERS	METHOD
SG&A (Selling, General & Administrative)	<ul style="list-style-type: none"> Span of control optimization Zero-based budgeting (ZBB) Shared services and consolidation Offshoring/back-office outsourcing Process automation (RPA) Elimination of non-value-added activities Benchmarking against industry peers 	<ul style="list-style-type: none"> Time-driven activity-based costing (TDABC) Org benchmarking (e.g., G&A costs per revenue) Re-org simulations using span/layer models Cost-to-serve models by department
Procurement	<ul style="list-style-type: none"> Strategic sourcing (aggregation, auctions) Should-cost modeling (clean-sheet analysis) Supplier rationalization Tail-spend management and compliance enforcement Contract renegotiation with volume leverage TCO (total cost of ownership)-based vendor selection 	<ul style="list-style-type: none"> Spend cube and category analytics Benchmark pricing databases (e.g., Beroe, GEP) PPV (purchase price variance) tracking Supplier performance scorecards TCO modeling by SKU/vendor
Operations and Maintenance	<ul style="list-style-type: none"> Operational Excellence strategies Production loss analysis Overall equipment effectiveness (OEE) improvement (downtime, speed, quality) Layout optimization Preventive and predictive maintenance BOM cost takeout and process engineering Make/buy optimization Direct labor efficiency via time standard Energy-efficiency strategies 	<ul style="list-style-type: none"> OEE tracking and loss-tree analysis Value stream mapping (VSM) Current process vs. best practices with gap analysis Standard vs. actual cost variance analysis Time and motion studies, SMED Benchmarking work processes, cost per unit, etc. vs. industry peers
Supply Chain /Logistics	<ul style="list-style-type: none"> Network footprint optimization Freight re-bidding and routing efficiency Refinery labor and automation Inventory optimization (safety stock, turns) Demand planning and forecast accuracy Supplier consolidation and inbound flow control Cap and trade contractor strategies 	<ul style="list-style-type: none"> Total landed cost modeling Route and lane-level freight cost analysis Inventory carrying cost analysis Warehouse time-motion studies Forecast accuracy metrics and DIO trend analysis
Capex Optimization	<ul style="list-style-type: none"> Capital management governance and project controls Tank management programs Oils blending optimization 	<ul style="list-style-type: none"> Capital project best practices Lean construction methodologies Lean pull capital Inventory optimization



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