

Contract and commercial management  
benchmark report

# Oil, gas and energy sector

One in a series of ten sector-specific reports

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# Preface

## Abstract

In a period of transformational change, the oil, gas and energy sector requires a fundamental revision to many of its commercial and contracting practices and capabilities. While there has been quiet and steady progress, fundamental reforms are still underway.

## About this report

In the period June – September 2021, World Commerce & Contracting gathered data from more than 800 organizations, providing in-depth visibility into their contracting and commercial capabilities. This report focuses on input from 87 companies in the oil, gas and energy sector, providing sector-specific analysis and comparison with cross-sector performance and trends.

## How to use the WorldCC benchmark reports

Benchmarking compares against four levels:

### Level 1

**Your own past performance**

### Level 2

**Others in your sector**

### Level 3

**World-class standards**

### Level 4

**Goals or vision**

This report should be used to make a direct comparison with the current state of others in your sector (Level 2), as well as providing cross-sector averages.

The *Benchmark Report 2021* (published September 2021) provides detailed insights across all sectors, but more importantly offers an analysis of world-class performance, and can therefore be used to measure your current state against those world-class standards (Level 3). Drawing from those standards of excellence, you may want to set a future goal or vision that represents an as-yet unachieved aspiration and would set you apart from others (Level 4).

# Executive summary

Over the last ten years, the oil, gas and energy sector has faced a revolution in the business environment and this is set to continue for the foreseeable future. A heady mix of liberalization, regulation, development of wholesale markets, and shifting legal obligations around emissions, renewables and energy efficiency has been accompanied by rapid shifts in market demand and pricing, together with political and activist demands for fundamental change.

Relative to other major sectors, the sector has in the past made significant investment in developing its contract and commercial management (CCM) capabilities, but facing such volatile conditions it is struggling to address skill shortages and to deploy technology that is appropriate for evolving market conditions. This is impacting its ability to handle change and operate at the necessary levels of operational efficiency.

The sector is strongly aware of the need for change and increased speed and efficiency. To support this, the benchmark data reveals that 55% of organizations are experiencing increased executive interest in CCM capabilities.

Relative to other sectors, there has been substantially greater likelihood of formal skill gap analysis, and education / training has been put in place by 61% of the companies responding to the survey.

However, for most, improvement is still to occur. This is evidenced by the fact that the quality of existing skills is felt to be a barrier to achieving business priorities by 40% of respondents. It is also implied by the finding that 38% view the quality of functional leadership as a major barrier.

## CCM in the oil, gas and energy sector

55%



experiencing increased executive interest in capabilities

61%



put in place education and training, however...

40%



say quality of skills is a barrier to achieving business priorities

38%



view the quality of functional leadership as a major barrier



# Oil, gas and energy sector findings

## Priorities for improving CCM

A changing environment (regulation, market and society) is driving a new portfolio mix, and new relationships, requiring conscious and co-ordinated adaptability and agility.

Many in the oil, gas and energy sector face a complicated operating environment, with production and resources scattered across multiple locations, often in remote and inaccessible places. Such conditions inevitably create challenges in ensuring consistency of process and availability of the right resources. It is therefore not surprising that the top priorities are to improve internal processes and to raise or retain skills. Each of these is viewed as a high or medium-level priority by more than 90% of respondents.

In addition, the sector operates in an environment where there is growing political, regulatory and social pressure for change. This is not consistent across jurisdictions and has led to varying commercial responses, in some cases focusing on how to adapt existing practices and in others, making a much more fundamental shift in business direction and offerings. For example, in Europe, traditional oil and gas majors are entering alternative energy markets, which leads to lower margins and unfamiliar partnerships.

The top five strategic priorities identified by benchmark participants from the oil, gas and energy sector are:

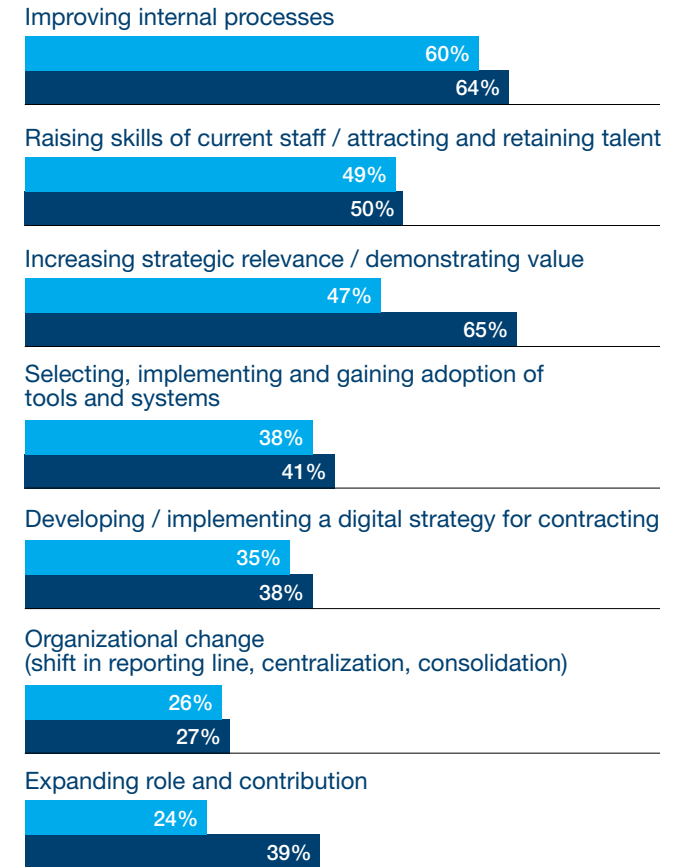


To confront these challenges, there is growing appreciation, especially within larger organizations, of the need for improved tools and systems (74%) and to develop and implement a digital strategy (63%). However, significant minorities feel these are low priorities – 26% and 37% respectively.

It is also interesting to note that just over a quarter feel that organizational change is a priority. These are primarily groups that are currently decentralized or operating with an inconsistent structure – a model that clearly makes orchestrated change extremely difficult to achieve.

Relative to most other sectors, CCM resources in this sector feel less pressure to prove their value (47% versus average 65%) or expand their role (24% versus 39%), perhaps reflecting their relatively well-established position in the organizational hierarchy. Their bigger challenge appears to lie in adjusting to fast-changing conditions which demand altered contracting and commercial approaches and require new, adaptive forms of agreement and relationship.

## Priorities for team or functions



Oil, gas and energy sector | Cross-sector average

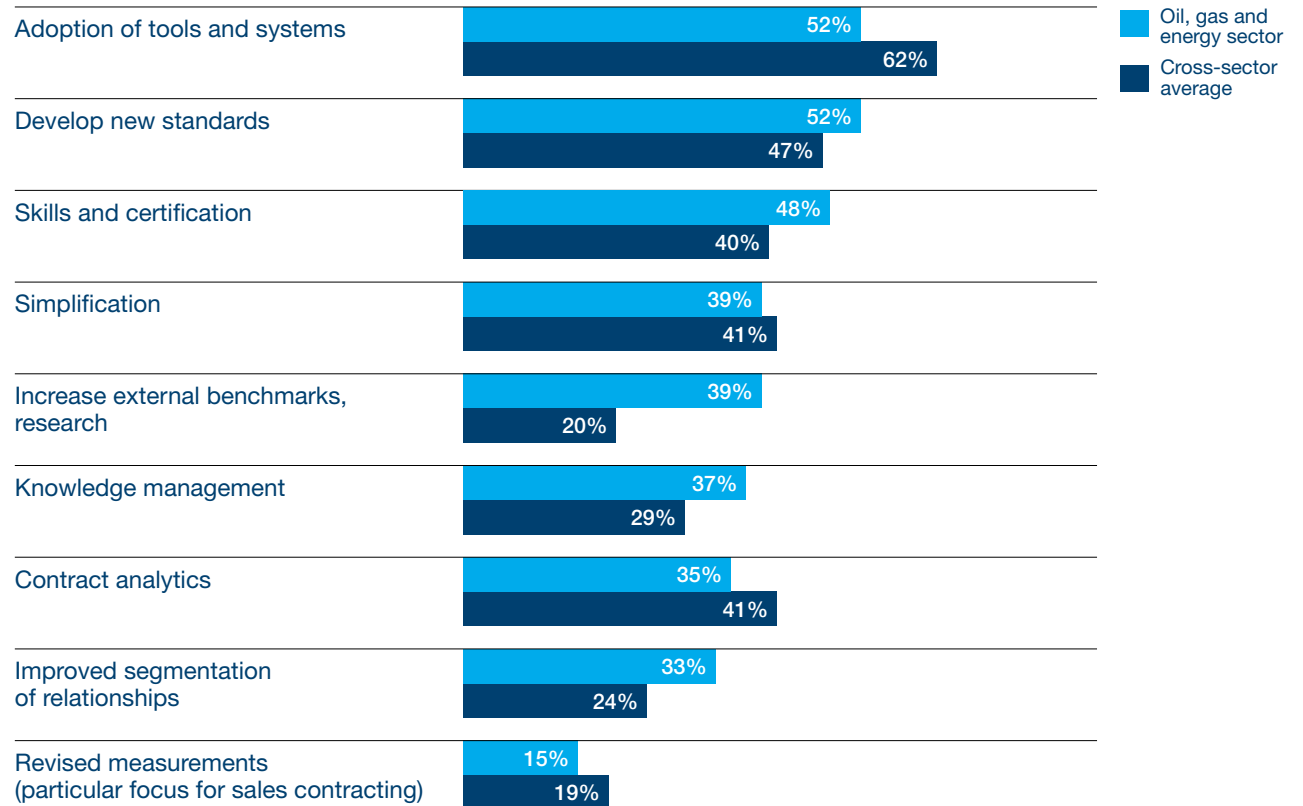
## The nature and extent of executive focus

In common with most others, CCM in the oil, gas and energy sector is experiencing increased executive focus – 55% report this to be the case (cross-sector average is 50%). A total of 8% say interest is either declining or that CCM is viewed as unimportant (versus 10% average).

This interest translates to a range of improvement initiatives, many supporting the executive priorities for greater adaptability and speed, together with improved capability in entering new markets and building more sustainable relationships.

In this context, relative to overall cross-sector averages, the sector is placing greater emphasis on developing new standards (52% versus 47% average), knowledge management to improve CCM (37% versus 29%), skills and certification (48% versus 40%), improved segmentation of relationships (33% versus 24%) and undertaking more external benchmarking and research (39% versus 20%). The areas where there is less focus than the norm are adoption of tools and technology for CCM (52% versus 62%) and contract analytics (35% versus 41%).

### Initiatives that are being considered (in the context of CCM)



## The current state of CCM technology

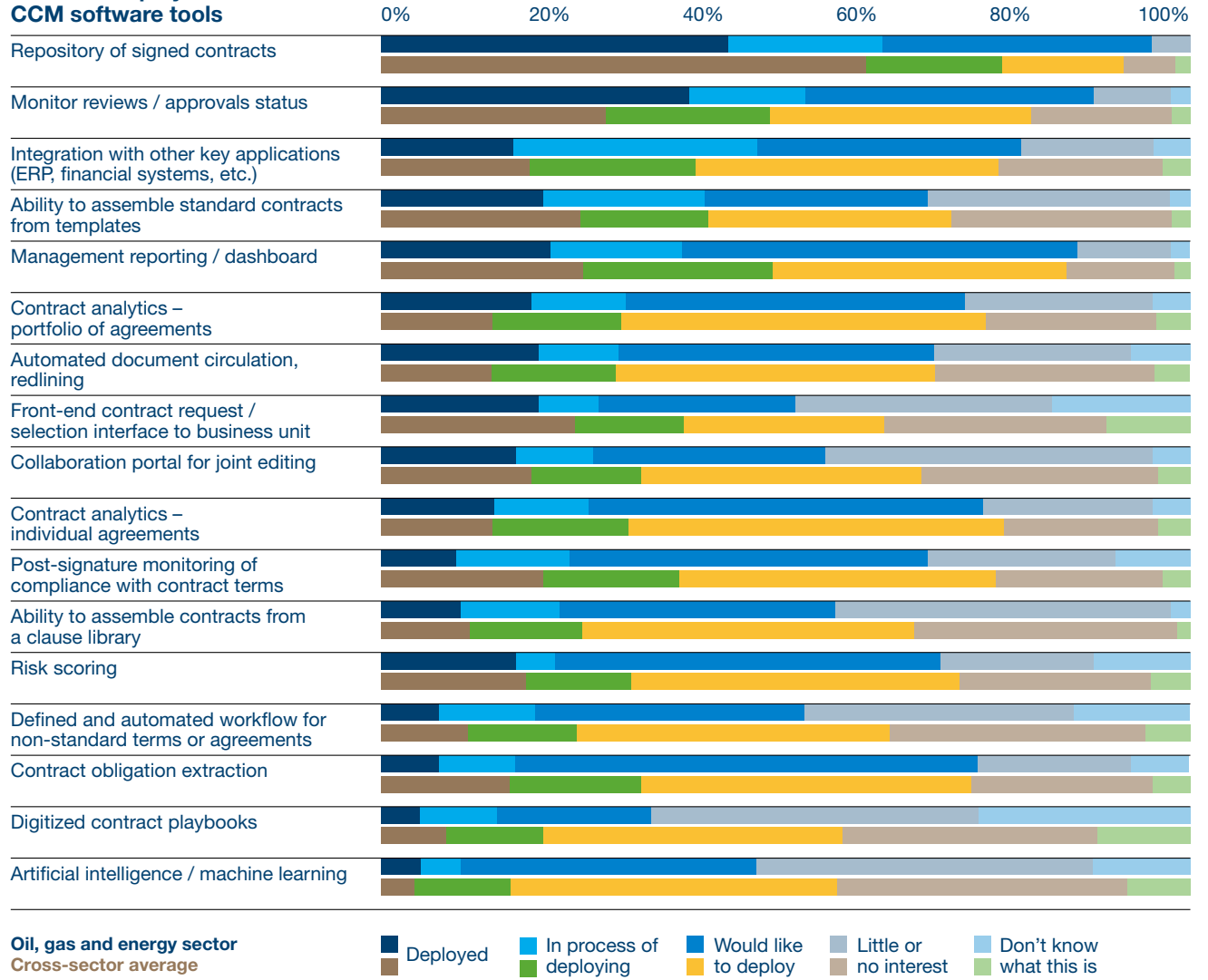
While there is some acknowledgement that technology can offer improved performance, the benchmark responses reveal a distinct undercurrent of technology aversion in the oil, gas and energy sector.

63% say that selecting or deploying new tools and systems in the next 12 months is not a priority. Of the 37% who are planning more immediate action, the key drivers (see below) focus on increased visibility and controls. The top five items on the list are mentioned by 65% or more of those responding to the question, whereas the factors related to financial and economic benefits were selected by 50% or less. This focus on factors that are important, but where the return on investment is hard to measure, may account for the difficulty many encounter in gaining budget and support for investment.

### Key drivers for those planning immediate action

- Overall visibility into contracts / contract data
- Improving operational performance
- Being able to find and search contracts
- Audit trails
- Integrated data across systems
- Improving regulatory / legal compliance
- Improving cycle times
- Reducing operational cost
- Increasing revenue / value retention
- Reducing value erosion.

### Extent of deployment of CCM software tools



The current state of CCM technology (continued)

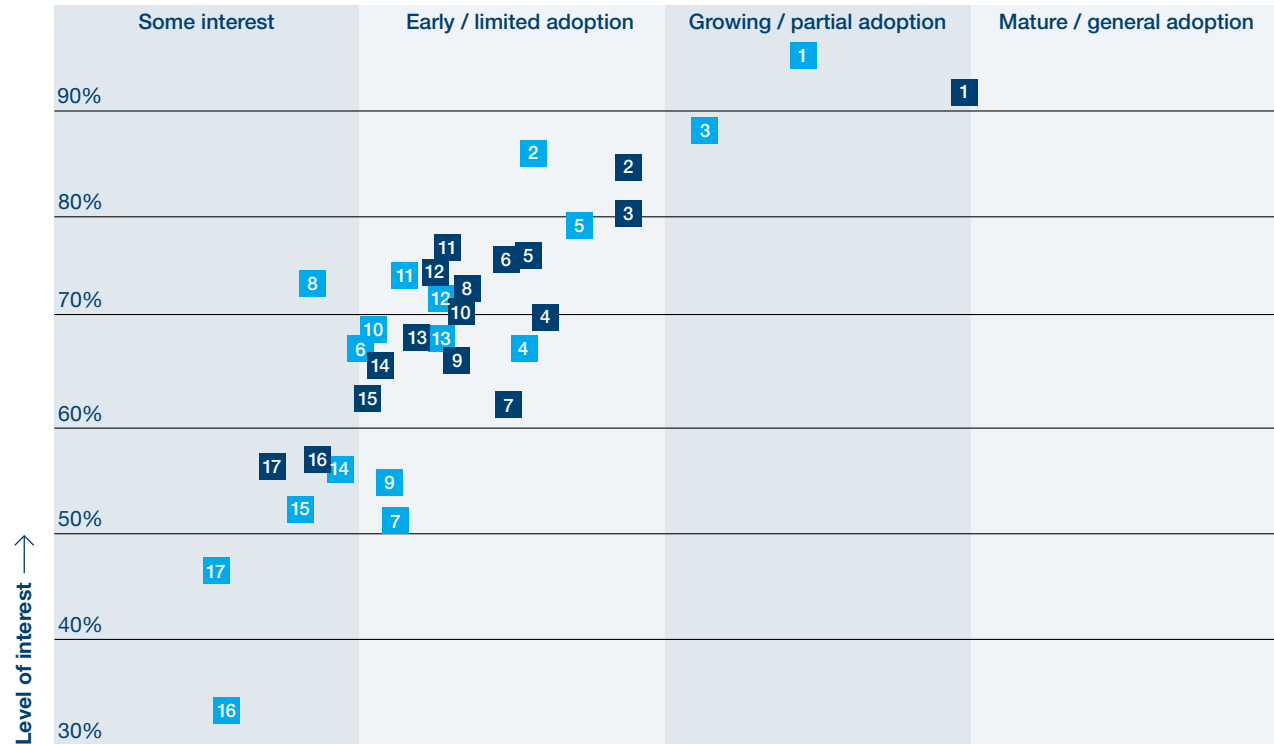
On average, technology in the oil, gas and energy sector is broadly in line with cross-sector norms, though it is notable that only 61% say they have or are deploying a repository against the cross-sector average of 76%. Many in this sector report significant challenges in deployment, given the wide variations in historic contract models and taxonomy. A distinctive point is the extent of apparent aversion to technology, illustrated by the percentages declaring they are ‘not interested’ in key areas of functionality, such as 42% for artificial intelligence / machine learning, the same percentage not wanting the ability to assemble contracts from a clause library and 41% having no interest in digitized contract playbooks (by contrast, this is a highly desired feature by 61% of cross-sector respondents). Even ‘a defined and automated workflow’ is rejected by 33%.

The top features that are wanted are:

- Contract obligation extraction / compliance monitoring (57%)
- Management reporting / dashboard (49%)
- Contract analytics – at transactional level (49%)
- Risk scoring (48%)
- Post-signature contract compliance monitoring (44%)

In this context, it is interesting that so many are ‘not interested’ in artificial intelligence / machine learning, when the functionality they most want actually depends on these. Overall, the findings suggest that there is limited understanding of the technologies that are now available or what they can offer.

Levels of interest in and adoption of CCM technology



Progress →

- |   |   |
|---|---|
| 1. Repository of signed contracts   | 9. Collaboration portal for joint editing                               |
| 2. Management reporting / dashboard                                       | 10. Risk scoring  |
| 3. Monitor reviews / approvals status                                     | 11. Contract analytics – individual agreements                          |
| 4. Ability to assemble standard contracts from templates                  | 12. Contract analytics – portfolio of agreements                        |
| 5. Integration with other key applications (ERP, financial systems, etc.) | 13. Automated document circulation, redlining                           |
| 6. Post-signature monitoring of compliance with contract terms            | 14. Ability to assemble contracts from a clause library                 |
| 7. Front-end contract request / selection interface to business unit      | 15. Defined and automated workflow for non-standard terms or agreements |
| 8. Contract obligation extraction   | 16. Digitized contract playbooks  |
|   | 17. Artificial intelligence / machine learning                          |

Oil, gas and energy sector  
Cross-sector average

## Contracts and the contracting process

Contract duration in the oil, gas and energy sector is lengthening – 38% report increases in the term, versus 12% experiencing decreases. However, at present, average duration for mid-complexity contracts is 2.6 years and for high complexity 5.2 years – each around 15% less than the cross-sector average. The increase is attributed to the issues created or made visible by the pandemic – supply chain fragility and the need to improve security of supply.

The sector is broadly in line with the cross-sector average in its use of contract templates. 43% (against average 41%) operate with fixed templates, 29% with templates and pre-approved fall-backs. A higher-than-average percentage (16% versus 12%) say that they have a database of terms which allows flexible creation of contracts from a clause library. While this is a clear benefit in terms of potential cycle time reduction and achieving increased value, it is a surprising finding, given the declared lack of interest in this functionality (see previous section on Technology).

This sector is slightly more likely than others to succeed in imposing a standard template without amendments (28% versus 24%) or in using a sector standard (8% versus 6%). However, this means that almost 65% of agreements are to some extent negotiated. Given the extent to which this sector has developed standard forms of agreement, it is interesting how little they are used.

Greater success in using templates, together with wider availability of fall-back terms, are the likely factors in enabling more efficient deployment of CCM resources. Only 16% of the average function’s time is allocated to low-value agreements (cross-sector average 21%) and almost half (49%) is applied to high complexity contracts (cross-sector 42%).

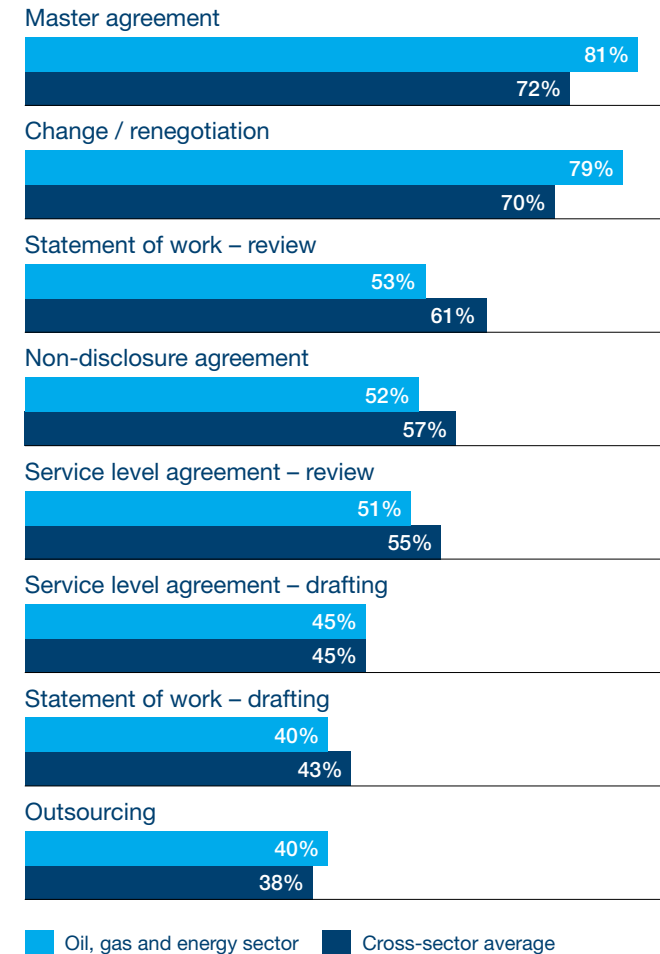
However, this apparent efficiency does not translate to higher levels of productivity. As we shall see in the section on Measurements (page 14), this sector has a 30% shortfall in terms of contracts handled per head, irrespective of complexity level.

As another efficiency indicator, the sector is in general yet to realize the benefits that flow from contract simplification, with 63% (buy-side) and 71% (sell-side) having undertaken no initiatives (cross-sector comparison 51% and 59%). Where improvements have been made, they are primarily in lower value agreements such as Purchase Orders or standard services, though several have simplified their EPC contracts. In this context, the work undertaken by Shell stands out, addressing not only simplification of language and structure, but also the introduction of graphics and visualization.

In terms of the types of contracts used, this sector is close to the cross-sector average in its use of outcome, performance and as-a-Service agreements, with each of these experiencing increasing use in more than 25% of organizations. There is below average use (and limited growth) in agile and relational / collaborative forms of contract.

Finally, in common with other sectors, engagement with particular types of transaction or agreement is fragmented. The chart (right) shows responses to the question: “In the context of your organization’s business activity, how frequently do you have substantial input to the following contract or relationship documents/offerings?” The percentages represent those who answered either “all the time” or “most of the time”.

### Type of agreement





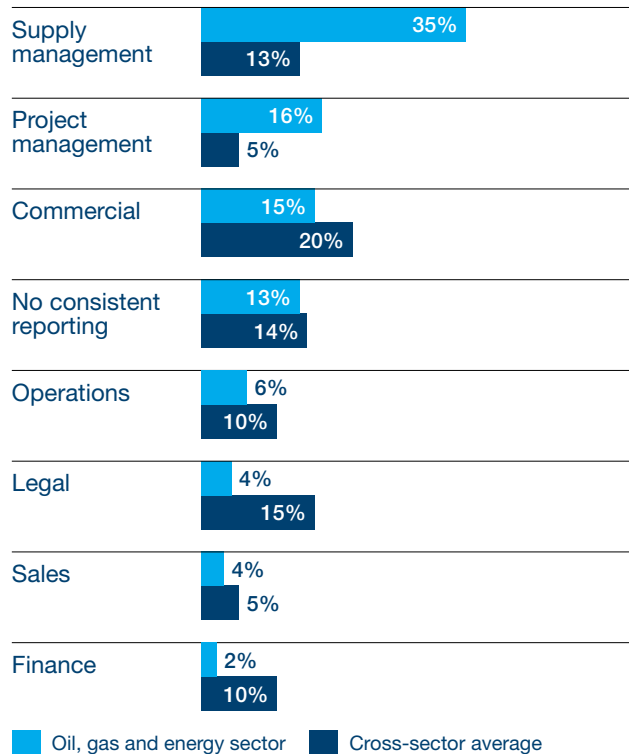
## Resources, organization and reporting

CCM groups in the oil, gas and energy sector are weighted towards support for procurement, rather than sales, and this should be taken into account when viewing the comparative cross-sector data.

Although having dedicated CCM resources (especially for contract management) is the norm within oil, gas and energy, the typical headcount for those dedicated resources is substantially lower at around 40% of the cross-sector average. Even when looking at directly comparable sectors, such as engineering and construction, this sector operates with only around 70% of the CCM headcount. Given the relative volume and complexity of agreements, this means that there is a higher proportion of contract management work being undertaken by non-specialists, typically in Procurement, Operations or Project Management.

CCM resources are less likely to operate under an independent (commercial) reporting line (15% versus cross-sector average of 20%) and far more likely to report into Supply Management (35% versus 13%). Contract management resources may also operate as part of the Project Management function (16% versus 5%), reflecting a view that it is primarily a post-award activity.

### Reporting lines to:



70% of respondents state that there is clarity over responsibility for contract management, against the cross-sector average of 63%. In respect of commercial management, only 55% (against average 58%) feel there is similar clarity. 72% (versus 69%) operate CCM activities with dedicated resources, although as noted, the volume of those resources is below the cross-sector average. Where responsibility is part of another role, it is again Project / Program Management that stands out (31%), followed by Procurement (25%). It is notable that few of these 'part-time' contract managers have received training in this field of activity.

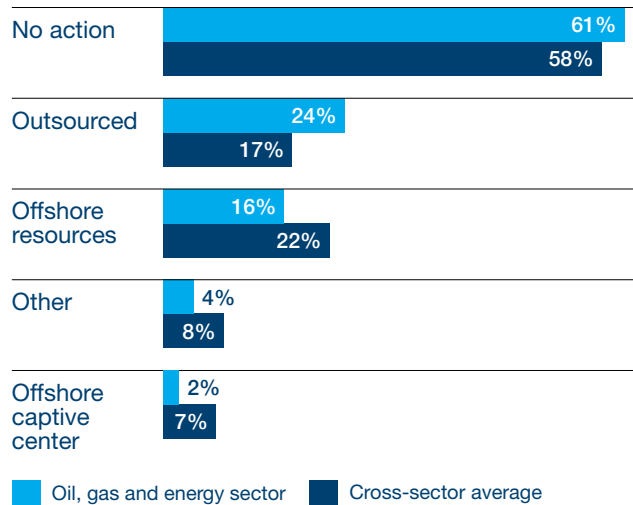
Resources, organization and reporting (continued)

Overall, 23% of the workforce is in some way involved in contract management activities – for example, stakeholders in pre-award review and approval; fulfilling obligations or overseeing performance; negotiating or managing change. Even though this is slightly less than the cross-sector average of 26%, the limited support from technology means there are inevitable inefficiencies, which are compounded by the relatively high proportion of contracts that are deemed ‘complex’.

60% of organizations operate with centralized or center-led CCM resources (against 52% average). 18% have a matrixed reporting structure and 22% are decentralized or vary by business division or geography. Analysis shows a distinct difference between those with a centralized model, especially in terms of more strategic investments and development – for example, technology deployment, simplification initiatives and performance measures. Decentralization results in a far more tactical focus, with an inability to identify value-add or contribute to business change.

Relative to other sectors, the oil, gas and energy sector is somewhat less likely to use offshore resources for CCM activities (16% versus 22%), but more likely to have fully outsourced some activities (24% versus 17%).

**Offshoring and outsourcing**



In terms of the tasks undertaken by these supplementary resources, they are overwhelmingly focused on contract administration (81% versus average of 66%) and less likely to be dealing with accounts payable / receivable (27% versus 33%) or contract review and discovery (48% versus 63%).

Finally, 24% of organizations in this sector have some level of integration between buy-side and sell-side CCM resources, against the cross-sector average of 31%. For complex sectors in particular, higher levels of integration support improved performance – for example, by driving improved data flows, shared systems and creating a greater interest in supporting key financial indicators such as cash flow and revenue growth.

## Responsibilities and time allocation

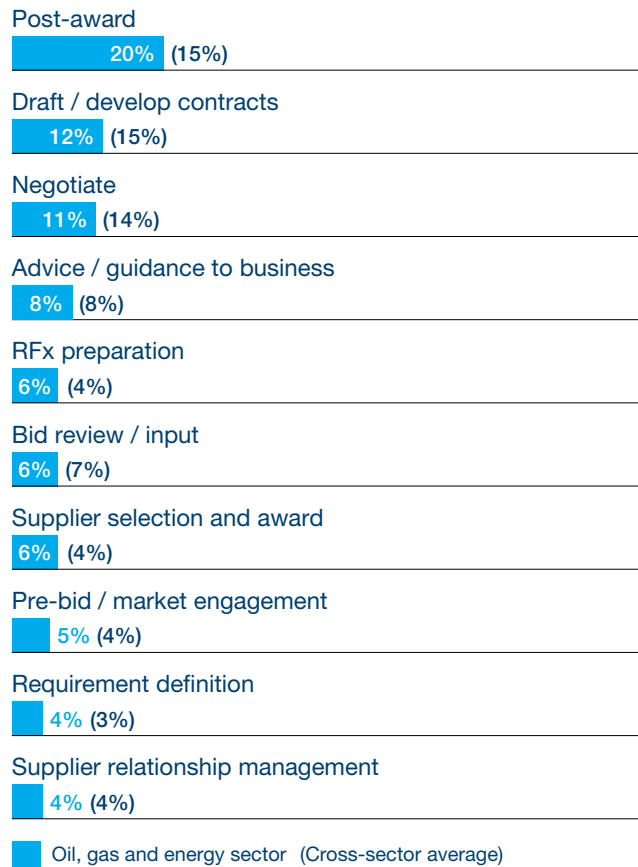
In terms of the top ten responsibilities, the primary areas in the oil, gas and energy sector are similar to other sectors. Where differences arise, these are in some cases attributable to the predominance of buy-side groups.

### Top ten responsibilities



However, there are also some indications of a more operational / less strategic emphasis (for example, regarding areas such as change initiatives). The chart below shows the top ten, by percentage and then also the comparative rank in the cross-sector average.

### Where time is allocated (top ten)

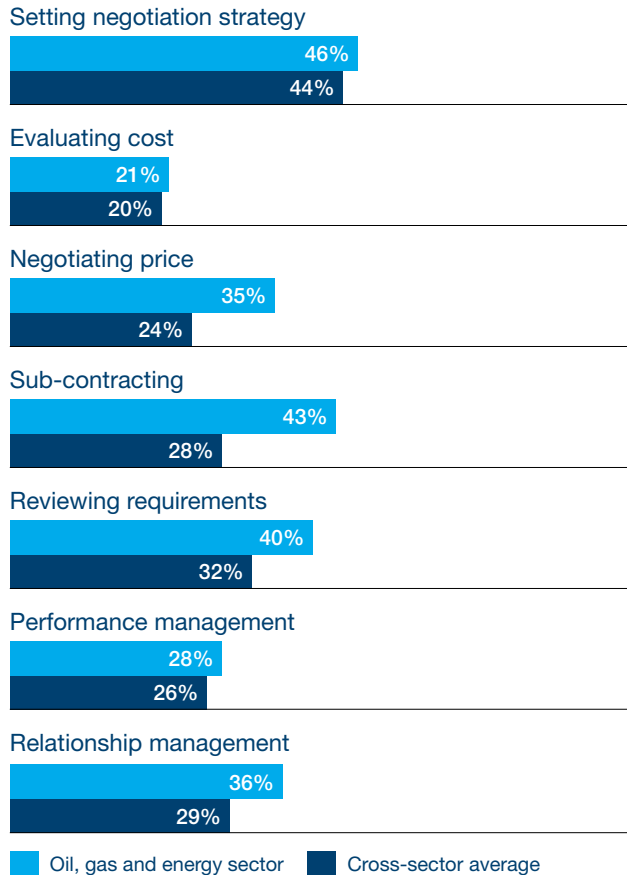


The two areas that are in the cross-sector top ten, but absent from the oil, gas and energy list, are either leading or supporting change initiatives, such as introduction of new commercial models, and new forms of contract (these are in 15th and 12th positions respectively). Another area notable by its low status (yet consistent with earlier findings) is development, roll-out or support for automated systems and tools, which ranks as a leading responsibility only half as frequently as the cross-sector average.

Responsibilities and time allocation (continued)

The chart (right) shows responsibilities in a different form and reflects answers to the question “In the context of specific contracts, who has primary responsibility for the following activities?” The percentage represents those who answered “my team” (i.e. CCM) and reveals a consistently higher frequency of the leading role in the oil, gas and energy sector.

**Responsibility of activities**



The primary areas of responsibility do not directly co-relate to where most time is spent (workload distribution) and on this measure the top ten activities in terms of resource allocation (again compared to the cross-sector average) are:

1. Post-award contract management (20.2%) (15.2%)
2. Draft / develop contracts (12.1%) (14.7%)
3. Negotiate (10.6%) (13.8%)
4. Advice / guidance to business (7.5%) (7.9%)
5. RFX preparation (6.3%) (4.4%)
6. Bid review / input (6.0%) (6.9%)
7. Supplier selection and award (5.5%) (3.8%)
8. Pre-bid / market engagement (4.7%) (4.4%)
9. Requirement definition (4.4%) (3.1%)
10. Supplier relationship management (3.8%) (4.2%)

On average, CCM groups in other sectors spend more time ‘Establishing commercial / contracting strategy’, which with 3.6% places it in the top ten, and on ‘Developing, implementing and maintaining automated systems and tools’ (5.6% cross-sector, 3.0% for this sector).

## CCM objectives

CCM objectives in oil, gas and energy are very similar to those in other sectors, especially for groups operating on the buy-side. For contract management, they are heavily weighted towards business controls and containing risk. ‘Facilitating external relationships’ and ‘Improving business productivity’ are not considered meaningful objectives for contract management groups, and come in last place.

### Primary objectives for contract management

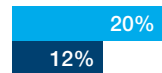
#### Risk mitigation / management



#### Ensure business controls / compliance



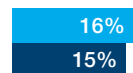
#### Manage change



#### Negotiation ‘center of excellence’



#### Financial impact



Oil, gas and energy sector | Cross-sector average

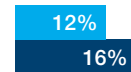
The objectives for commercial management are more strongly oriented towards added-value, with ‘Financial impact’ the clear leader. ‘Balance business objectives / customer needs’ is in third position in the cross-sector rankings.

### Primary objectives for commercial management

#### Financial impact



#### Risk mitigation / management



#### Balance business objectives / customer needs



#### Negotiation ‘center of excellence’



#### Identify opportunities for added-value



Oil, gas and energy sector | Cross-sector average

When it comes to the readiness to support business objectives (and respond to increased executive expectations), CCM groups in this sector are not typically well-equipped. For example, while they appreciate the need for increased market research, there is on average less than 0.5 of a head allocated to this activity. Similarly, in areas related to simplification and ease of doing business, CCM groups are focusing far less activity than their cross-sector peers, which inevitably impacts productivity and the ability to shift workload from a largely reactive to proactive mode of operation.

The primary areas of market research that CCM groups would like to undertake are:

- Pricing / charging models
- Organizational benchmarking
- Competitive terms and conditions
- Best practices in offering design and simplification
- Trends in commercial offerings

These priorities are an encouraging indicator of awareness of the need for change. The challenge may be inadequate resources to gather and analyze the necessary data, or to formulate the business case for change.

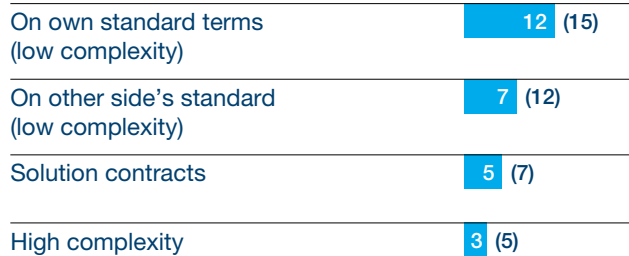
On this question of change, another encouraging indicator is that this sector is more likely to have undertaken a skills audit of CCM staff (50% versus average 35%) and 56% have developed a skill gap analysis. 61% (against cross-sector 55%) have training resources or plans in place, though only 41% (versus 43%) have the necessary budget to execute on delivery.



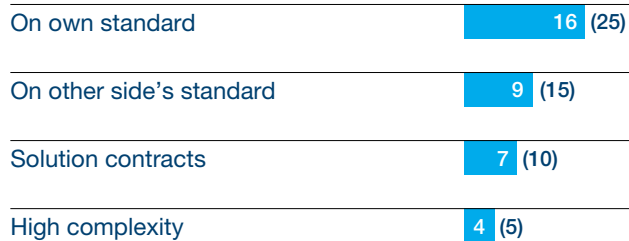
## Measurements

CCM groups in the oil, gas and energy sector spend less time than the cross-sector average supporting low complexity contracts, applying only 16% of resources to these versus an average of 21%. They deploy 49% of their resources on high complexity agreements, versus an average 42%. However, this apparent efficiency does not translate into higher levels of productivity. When it comes to contracts handled per head, this sector has a ‘productivity shortfall’ of more than 30% relative to cross-sector averages. For example, contracts being handled simultaneously per head are as follows:

### Contracts handled per head – Pre-award



### Contracts handled per head – Post-award

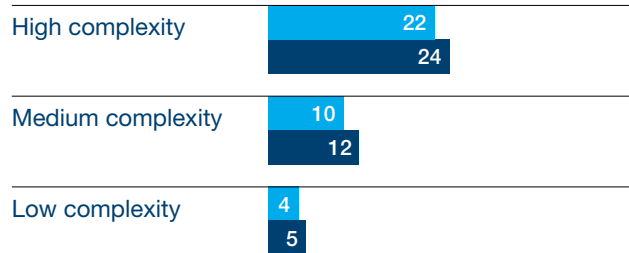


Lack of automation appears to be a major influence on this performance and is reflected in the relatively basic areas of functionality which this sector identifies as priorities for automation:

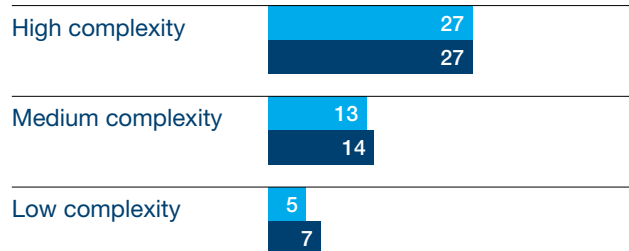
- The ability to find and search contracts
- Visibility into and across contracts
- Monitoring operational performance
- Supporting internal data flows
- Improving compliance.

However, lower productivity does not translate to longer cycle times and the economic benefit from greater speed certainly outweighs the incremental costs of handling fewer contracts per head. Compared to cross-sector averages, teams spend more time on pre-bid market engagement, RFx preparation, requirements definition and supplier selection (approximately 21% versus 15%) and this may explain the approximately 13% better-than-average cycle times from bid to award.

### Contract cycle time domestic agreements (weeks)



### Contract cycle time international agreements (weeks)



Oil, gas and energy sector | Cross-sector average

### The top items that are monitored are:

- Cost reductions
- Improvement initiatives
- Cycle times
- Negotiated benefits
- Invoicing accuracy
- Compliance (performance)
- Compliance (standards).

### The top items reported are:

- Adherence to contract specification / scope
- Negotiated benefits
- Compliance (performance)
- Compliance (standards)
- Cost avoidance
- On-time delivery
- Number of POs / contracts handled.

While these measures are in both cases broadly in line with cross-sector averages, in most cases they do not indicate gathering or reporting the sort of data that generates meaningful value-add or evidence of strategic contribution. These broader measures – which often relate to areas such as risk scoring, post-award value retention and growth, portfolio analysis and operational speed – are often impossible to capture without advanced systems. To move towards world-class standards, organizations in this sector need to establish a set of measurements that align with corporate goals and strategies and encourage the sort of innovation and adaptability that matches the best performers.

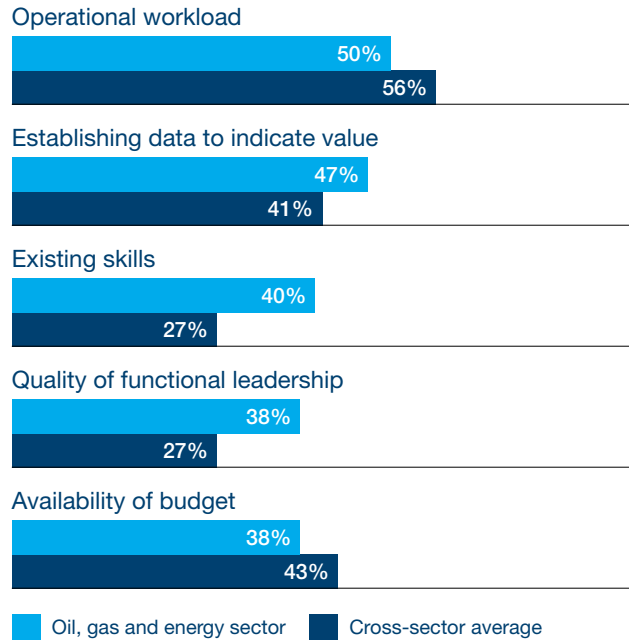
## Barriers to improvement

What factors are constraining the performance of CCM groups and the development of improved capabilities in the oil, gas and energy sector?

As with other sectors, ‘operational workload’ tops the list, though both this and budgetary constraints are not such dominant factors. Relative to others, the quality of functional leadership and of existing skills are seen as substantial inhibitors. In a sector that is undergoing rapid and fundamental change, it is not surprising that there are stresses in terms of both leadership and skills. As with some other traditional sectors, such as aerospace and defence, traditions of loyalty and recruitment within the sector may be acting as a significant disadvantage in adapting to new market conditions.

The top five barriers in the oil, gas and energy sector (with comparative data for cross-sector) are:

### Top five barriers



Once again, the challenge with establishing data is partly based on the areas where measurement occurs, but is also constrained by the limitations of existing technology, which frequently appears limited to transactional procure-to-pay systems.

Separately, the study asked about the barriers to technology adoption. Of these, the first two are dominant, with the others cited by around one third of respondents:

- Obtaining budget (68%)
- Building consensus across stakeholders (60%)
- Achieving alignment with IT strategies
- Identifying an executive sponsor
- Concerns over data security.

As previously observed, these barriers are unlikely to be overcome unless CCM groups focus their attention on the economic and strategic impact of new systems. While they concentrate on issues of administrative efficiency and business controls, they will not establish a compelling business case.

# Conclusions

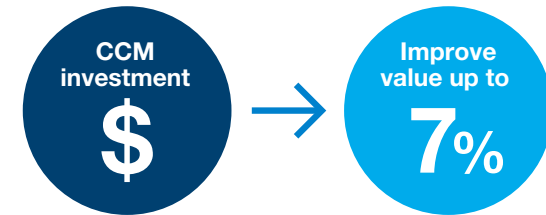
The status of CCM in oil, gas and energy reveals a very mixed picture. There are real positives, in areas such as centralization of resources and the extent of executive interest. Against this, there are indications of substantial under-investment in building resources and competency, with CCM still viewed by many as a subservient activity to Procurement and Program Management.

Growing market volatility and complexity is being made worse by sector-specific pressures arising from ESG pressures and increasing regulation. There is an urgent need to re-focus CCM resources and capabilities into strategic activities and the management of change.

Today, CCM groups have a transactional focus. They operate with very little of the technology needed – and available – to enable a more strategic view of portfolio performance and the reduction of repetitive issues. This constrains improvements that go beyond a tactical level of individual opportunities or problem resolution.

In summary, relative to other sectors, the data in this report indicates a below-average level of investment in CCM capability and this inevitably leads to missed opportunities to reduce value erosion and increase strategic impact. Overall, the likely reward for those who take action is to generate cost and value improvements equivalent to 5-7% of average contract value.

Traditionally many organizations in the oil, gas and energy sector have operated a portfolio of programmes and projects. They have sought to maintain their ‘power’ by dividing, controlling, and co-ordinating the various elements of the contracting lifecycle. As the business portfolio changes, there is a need to raise CCM to being a business level enabler that supports portfolio management and evolution, along with commercial innovation in support of new business and delivery models.



**The reward for investment in CCM capability can be cost improvements equivalent to 5-7% of average contract value.**

### About World Commerce & Contracting

World Commerce & Contracting is a not-for-profit association dedicated to helping its global members achieve high-performing and trusted trading relationships. With 75,000 members from over 20,000 companies across 180 countries worldwide, the association welcomes everyone with an interest in better contracting: business leaders, practitioners, experts and newcomers. It is independent, provocative and disciplined existing for its members, the contracting community and society at large.



### Benchmark sector-specific reports

This report is one in a series of 10, based on data extracted from WorldCC's *Benchmark Report 2021*. Each report provides in-depth visibility into CCM capabilities for the following sectors:

- Aerospace and defense
- Banking, insurance and financial
- Engineering, construction and real estate
- Health and pharma
- Manufacturing and processing
- Oil, gas and energy
- Public sector and government
- Services, outsourcing and consulting
- Technology and software
- Telecomms.

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