

Economic Resilience: Strategic Cost Management for Australia's Energy Future



dss⁺

Protect. Transform. Sustain.



The Australian oil, gas & energy industry is facing diverse headwinds, marked by ageing assets, regulatory approval delays, fluctuating global market prices and declining production. Major industry players are responding by intensively focusing on reducing operating costs, including unit costs for ageing assets. This helps manage financial challenges in an increasingly volatile market.

But the question remains — **are mere cost-cutting measures alone enough? Or do organisations need to adopt more strategic approaches to address the root causes for sustainable, long-term efficiencies?**

Recent developments illustrate these pressures vividly:

Origin Energy has reported an 8 per cent decline in revenue from its stake in Australia Pacific LNG due to lower global prices for oil and gas. South Australian oil and gas giant Santos is addressing late-life assets nearing closure, there is an increasing near-term focus on capital-intensive decommissioning activities, new project approvals are taking longer, and headcount is being reduced. South Australian Beach Energy is targeting field operating costs to achieve a unit cost of less than A\$11 per barrel of oil equivalent. Western Australia based Woodside Energy has been reviewing its workforce requirements through the integration of BHP Petroleum and its changing asset profile, which has resulted in structural organisational change.

These actions are vital to navigate the current challenges, while positioning for future growth when the market inevitably rebounds.

Organisations can take on a strategic and diagnostic approach, focusing on addressing root causes – enhancing operational efficiency, managing costs, ensuring disciplined capital allocation, and fostering a people-centric culture that drives adaptability and innovation. This positions them to emerge stronger, more agile, and better prepared to seize opportunities when conditions improve.

Cost Reduction Methodology: Strategic Alignment and Diagnostic Focus

Cost reduction programs aren't new to the industry, far from it, yet any successes companies have at cutting costs will traditionally erode with time. Our research and experiences indicate that only 10 per cent of cost reduction programs show sustained results after three years.

There is no silver bullet to ensure cost reduction programs stick. To make it meaningful, it is critical to connect the cost reduction program to strategy, conduct an upfront diagnostic, and zero in on a critical few areas and initiatives. Clear accountabilities and embedding cost management processes will increase the likelihood of achieving short term cost reductions and sustain the results over the long-term.

The diverse objectives of oil, gas and energy companies are anchored in their corporate strategies. The objectives and targets of the cost reduction program cannot exist in a vacuum, and they must connect to these strategies. There must be clear and consistent messaging on how the cost reduction program will drive the achievement of specific strategic objectives, without compromising other business priorities.

Focusing on where and how to cut costs is as, if not more important, than defining the cost reduction target. We often see CFOs and executive teams invest heavily in defining the total operating or unit cost reduction targets. Those targets are then distributed to assets and functions with far less rigour, under the assumption that those leaders are familiar with their costs and are best positioned to define how to achieve the targets.



There are several problems with this approach.

Firstly, not all parts of the business are created equal. Cutting the wrong costs in the wrong areas of the business can destroy value and constrain future growth.

Secondly, left unsupported, leaders tend to concentrate exclusively on price-side cost drivers such as changing suppliers, achieving price reductions, or negotiating volume discounts with suppliers. This focus overlooks the demand-side drivers like well-coordinated production, maintenance and turnaround strategies, plans and schedules, which drive spending requirements. Addressing these demand-led factors tend to have a far larger impact on reducing total costs.

Key enablers for success include conducting a comprehensive diagnostic of value and cost drivers from both demand and supply perspectives, prioritising specific areas for cost reduction while explicitly excluding others, setting ambitious yet attainable targets for these priority areas, and assigning clear accountability to leaders responsible for managing the relevant demand and cost drivers.



Implementation and Stakeholder Engagement

Implementing cost reduction measures is often met with resistance within the organisation. Common objections include doubts about the feasibility of repeated cost cuts and the reluctance of department heads to adopt changes that seem beyond their control.

Very few leaders like implementing cost reduction ideas. The team driving the cost reduction program will hear: "I'm too busy," "we tried this last year," "it didn't work," "these aren't my costs and I can't influence them," or "there's nothing left to cut".

Cost reduction programs have to influence and negotiate with these resistant stakeholders. This isn't an efficient use of time, nor will it deliver results.

Overcoming this resistance requires strong leadership, clear accountability, and a focus on quick wins that can demonstrate value and build momentum for broader organisational buy-in.

It's critical to identify and prioritise quick and impactful cost reduction initiatives, drive implementation through strong alignment, program management and executive sponsorship, celebrate success and value delivered, call out the positive changes in mindsets, processes, and behaviours to build momentum and healthy competition for further improvement.

Monitoring and Continuous Improvement

Oil, gas & energy is a cyclical industry, and over time, the focus will shift from the bottom line to the top line. As this shift occurs, the focus on core disciplines of effective cost management tend to deteriorate.

It's critical that the performance of cost reduction initiatives is monitored at regular intervals to validate that the mindset, process, and behavioural changes are still in place and the targeted value is still being achieved. Establishing regular cost review cadences is essential — not just for reviewing costs, but also to assess overall business performance comprehensively. Alongside this, counter-KPIs related to cost-cutting should be managed with close attention. Implementing effective progress review practices supports current cost reduction objectives and equips organisations to adapt quickly to future economic downturns, minimising operational disruptions.

Towards a Resilient Energy Future Amid Uncertainty

At the lows of the oil price cycle or during times of uncertainty, cost reduction programs become indispensable. However, achieving targeted results often prove challenging. It is vital to make sure the objectives of these cost reduction programs are anchored to the delivery of the company strategy.

Understanding value and cost drivers explicitly, prioritising cost reduction focus areas with achievable targets, assigning ownership to the right personnel, delivering the critical few initiatives swiftly and conducting regular sustainability checks are key steps for a more sustainable, resilient energy future.



Client Reference

Strategic Cost Reduction in Action: Realizing Millions in Savings

Using this methodology, we partnered with global organisations to achieve significant financial and operational improvements.

- A global organisation to reduce operational costs by US\$90m, decrease capital expenditure by US\$20m, and sustain these improvements by building leadership capability, improving key processes and systems and embedding a culture of operational discipline.
- A global organization achieved a US\$16 million reduction in contractor costs by consolidating vendors, work packages, renegotiating rates, and implementing effective contractor management practices. Additionally, we helped achieve a US\$3.5 million reduction in their equipment hire costs by improving forecasting, approval, and reporting processes. Close to US\$3 million in general and administrative (G&A) costs through effective cost management practices was also saved.

Authors:



Scott Hastie,
Global Lead of Oil, Gas
and New Energy, dss⁺



Quinton Crew,
Oil, Gas and New Energy Lead,
Australia, dss⁺

Find out more at www.consultdss.com.

dss⁺

Protect. Transform. Sustain.

[linkedin.com/company/consultdss](https://www.linkedin.com/company/consultdss)

twitter.com/consultdss

[youtube.com/consultdss](https://www.youtube.com/consultdss)

[instagram.com/consultdss](https://www.instagram.com/consultdss)

www.consultdss.com

