


# Maximising Oil, Gas and Energy Margins: Sustainable Cost Strategies



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The Australian oil, gas, and energy industry is under increasing pressure to reduce operating costs, including unit costs for aging assets, as it navigates diverse headwinds such as aging assets, regulatory approval delays, fluctuating global market prices, declining production, and the drive towards net zero. This pressure is evident in recent industry trends.

Origin Energy, for example, reported an 8% decline in revenue from its stake in Australia Pacific LNG due to lower global prices for oil and gas. Other companies are facing similar challenges. Santos is addressing late-life assets nearing closure, with increasing focus on capital-intensive decommissioning, and new project approvals are taking longer, resulting in approximately 200 role reductions (Evans, 2024). Beach Energy is targeting a 30% drop in field operating costs to achieve a unit cost of less than \$11 per barrel of oil equivalent, with headcount already reduced by 23%, delivering approximately \$50 million in operating cost savings (Toscano, 2024).

This trend of cost reduction is also evident at Woodside Energy, which has been reviewing its workforce requirements, resulting in structural organisational change and redundancies, following similar reductions during the integration of BHP Petroleum (Battersby, 2024).

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

## Cost Reduction Methodology: Strategic Alignment and Diagnostic Focus

Cost optimisation efforts are common in the industry, yet successes are rarely sustained. Our research indicates that only ~10% of cost optimisation programs show sustained results after three years. There is no silver bullet to ensure cost control measures stick. To make it meaningful, it is critical to connect the cost control program to strategy and focus on demand and price side cost drivers. Clear accountabilities and embedding cost management processes will increase the likelihood of achieving short-term cost savings and sustain the results over the long term.



### Connect the Cost Reduction Program to Strategy

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. Effective programs establish clear and consistent communication about how efficiency initiatives support strategic objectives.



### Focus on Demand and Price Side Cost Drivers

A strategic approach to cost optimisation requires careful consideration of both price and demand-side drivers. While price-side tactics (e.g., supplier negotiations) can offer quick wins, their impact is often limited. True, sustainable cost optimisation hinges on addressing demand-side drivers, which relate to internal resource utilisation and operational efficiency. Inefficient production processes, poorly coordinated maintenance, and suboptimal turnaround schedules can lead to significant cost overruns. Optimising these processes through technology investments, predictive maintenance, and workflow redesign offers the greatest potential for long-term, substantial savings. Therefore, a strategic focus on demand-side improvements is essential for achieving lasting cost optimisation.



### Implementation and Stakeholder Engagement

Implementing cost-saving measures often meets with resistance. Common objections include doubts about feasibility and reluctance to adopt changes. Strong leadership, clear accountability, and a focus on early results are essential. Proactively address concerns by communicating the rationale and impact on departments. Establish cross-functional teams to foster collaboration. Recognise and reward successful implementation. Provide necessary training and support. Prioritise impactful initiatives, drive implementation through alignment and executive sponsorship, and celebrate wins to build momentum.



### 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 efficiency initiatives is monitored regularly to ensure that mindset, process, and behavioural changes are sustained, and the targeted value is being achieved. Establishing regular performance review cadences is essential — not just for reviewing costs, but also to assess overall business performance comprehensively. Alongside this, counter-KPIs related to cost control should be managed closely. Implementing effective progress review practices supports current objectives and equips organisations to adapt quickly to future economic downturns, minimising operational disruptions.



## Strategic Cost Reduction in Action: Realising Millions in Savings

Partnering with a large multinational oil and gas operator facing declining production and aging infrastructure, we implemented our strategic cost reduction methodology. Aligned with their objective of maximising profitability while extending asset lifespan, our program focused on demand-side and price-side optimisation and stakeholder engagement.

Analysis of maintenance scheduling revealed significant inefficiencies. Equipment criticality and prioritisation, embedding a predictive maintenance program, and improved operational discipline reduced unplanned downtime by 18%, saving \$30 million in maintenance costs and increasing production uptime by 10%.

Cross-functional teams of frontline workers and engineers identified further savings by streamlining logistics. Optimising the supply chain demand and transportation logistics cut costs by 12%, saving \$15 million annually. Strategic renegotiation of supplier contracts added a 5% reduction in operating costs.

The program delivered a US\$90 million reduction in operational costs and a US\$20 million decrease in capital expenditure. Crucially, these savings enabled reinvestment in infrastructure upgrades, extending asset lifespan and generating a projected \$50 million in additional revenue.



### Conclusion

Sustainable success in the Australian oil and gas industry requires a strategic and integrated approach to cost optimisation. This includes a holistic focus on both price and demand-side cost drivers, enabling significant and lasting savings; active stakeholder engagement, which ensures buy-in and effective implementation; and continuous monitoring, which builds organisational resilience and prepares companies for future market fluctuations.

By adopting this methodology, organisations can not only achieve significant and lasting cost savings but also build the agility and resilience needed to thrive in a dynamic and challenging market while achieving sustainable, long-term profitability.

### References

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