Activity Based Costing/Management
Independent Oil and Gas Company

Covalence Solutions LLC

Enhancing Profitability

Case Study

Situation

We assisted a mid-size independent oil and gas producer to evaluate relative efficiencies of corporate versus regional administrative services. Utilizing activity based costing, we assisted the client in evaluating associated oil and gas production assets.

Project Objective

- Provide an accurate picture of the economics of marginally producing properties
- Determine the causal and cost relationships between administrative processes and operations
- Identify opportunities to increase the client's profitability through better utilization of assets

What We Did

- Develop a process based activity dictionary with the client to capture a holistic view of well management
- Identified cost drivers that consumed labor and material in support of marginal properties
- Facilitated management discussions about the true economics of marginal properties
- Assisted the client in implementing strategic portfolio changes

Results

- Savings of over 25% of the $18 million in corporate service budget were identified
- Several assets were sold to increase overall corporate margins after defining true returns using activity based costing