

Governing Energy

Economics, Economics, Economics

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As the price of oil has plunged, conventional wisdom is that the industry stopped. Nothing could be further from the truth although significant changes have been made in the industry procurement process.

Vendors now have to **Demonstrate** value that is not **Overstated** and **Defendable**. Moreover, as we have mentioned in the past, those peddling technology must, “Translate Technology to the Language of Business.”ⁱ It’s all about the numbers!

Moreover, in times of economic stress, the ultimate decision maker is often at a higher level in the organization than during so-called “normal” periods. In Western commercial organizations, almost by definition the higher the individual is in the structure the more bottom line driven they are—often because personal bonuses are structured that way.

This author has developed formal numerical models that demonstrate the economic value of CAPEX for over a decade. This solution is rooted in digital oilfield investment justification.ⁱⁱ

Over the past six months or so, this writer has seen a tenfold interest from both internal (organizational CAPEX justification) and external (suppliers selling solutions) in economic modeling to support investment decisions. One can surmise that procurement discussions are perhaps more frank and buyers must demonstrate that decision made reflect value to the organization that is not **Overstated**, is **Demonstrable** and **Defendable**.

If this perspective is correct, more scrutiny is being applied to assure shareholder value is protected/assured/even grown in trying economic times. Those who seek to assure management that investments add value to the organization must demonstrate it. Economic numbers are the only way!

How does your organization assure economic value is added from spend?

About the Author

Dr. [Scott M. Shemwell](#) has over 30 years technical and executive management experience primarily in the energy sector. He is the author of five books and has written extensively about the field of operations management. Shemwell is the Managing Director of The Rapid Response Institute, a firm that focuses on providing its customers with solutions enabling operations excellence and regulatory compliance management. He has studied cultural interactions for more than 30 years--his dissertation; *Cross Cultural Negotiations Between Japanese and American Businessmen: A Systems Analysis*

(Exploratory Study) is an early peer reviewed manuscript addressing the systemic structure of social relationships.

End Notes

ⁱ Shemwell, Scott M. (2014, November 20). Making the Complex Sale: Selling to Industrial/Enterprise Customers. Petrolessons. Houston.

ⁱⁱ <http://www.therrinstitute.com/economic-value-proposition-matriz-%c2%ae.html>