Standardised Supply Chain Behaviour

Annual report – 2020

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"The year 2020 has clearly demonstrated the absolute need to put safety first, to cut emissions and to improve cost efficiency on the Norwegian continental shelf (NCS).

We believe this can be achieved through more integrated work in the supply chains. Utilisation of expertise across the companies involved will enhance safe and efficient deliveries. Incentives to stimulate collaboration will support sustainable margins at all participants.

This will contribute to maintaining the NCS as one of the best-managed and innovative offshore sectors worldwide."

Anniken Hauglie
Director general
The Norwegian Oil and Gas Association

Stein Lier-Hansen
Director general
The Federation of Norwegian Industries

Introduction

Background: The Joint Industry best practice guideline* recommend four main areas for improvement:

Increase use of industry **STANDARD DELIVERY**

Better and earlier use of **SUPPLIER EXPERTISE**

ALIGN DRIVERS across the supply chain

Change operator and contractor **CULTURE**

The purpose with this report:

- **Measure the industry's ability to change**
- **Benchmark Oil and Gas customers** against maritime industry
- Be the basis for an **improvement agenda** on industry level

Input is provided from:

- **Operators, Contractors and Supplier Companies** (projects, engineering, procurement and sales)
- Commercial effect measurements is gathered from the **FERM database and Rystad Energy**

Report methodology: 2020 report is mainly based on feedback from quantitative survey and in-depth interviews

Annual survey to follow the development from 2019 and benchmark against Maritime Industry

In-depth interviews to increase understanding

Building the basis for the **Annual report**

We wish to thank all respondents and other involved parties

This report is based on interpretations from feedback provided

*The Joint Industry best practice guideline, launched in 2019

Improvement agenda 2021
Key focus areas based on learnings from industry feedback

	IMPROVEMENT AGENDA (owned by Joint Industry Improvement arena)
Increase use of industry STANDARD DELIVERY	• *Enforced effort to realise the good intentions established in early phases. (Walk the talk)* • *Focus on benefit realization from utilization of EqHub and EPIM JQS*
Better and earlier use of SUPPLIER EXPERTISE	• *Consider long-term collaboration to increase predictability, trust and joint drivers* • *Streamline supplier (early) selection processes*
ALIGN DRIVERS across the supply chain	• *Make incentives and win-win in contracts to stimulate contractors and suppliers to contribute to optimal total result*
Change operator and contractor CULTURE	• *Focus on sharing of competence across companies and internal "silos"* • *Enforced leadership and execution of training programs in Contractor and Operator Companies for: Project management, Procurement, Engineering and Operations* • *Communication programs across the industry networks* • *Get early focus on guideline recommendations in new development projects* • *Utilise top management in communication*

Improvement agenda 2021
Action list

	ACTIONS
Increase use of industry STANDARD DELIVERY	• *Establish recommended practice for use of EqHub and EPIM JQS*
	• *Harmonise requirements on industry level* - *Deep dive in selected operator internal standards to kick start harmonization (compare between operators and with international/supplier standard)*
	• *Contribute to alignment between READI, IOGP JIP 33 and EqHub*
Better and earlier use of SUPPLIER EXPERTISE	• *Establish work group to recommend procurement practice for early involvement of suppliers (pre commitment)*
ALIGN DRIVERS across the supply chain	• *Establish work group to improve contract practice* - *Share incentive models from specific projects/"alliances" (e.g. Aker Solutions / Aker BP)* - *Consider cross-functional reviews of standard contracts in context of guideline recommendations (e.g. early involvement and collaboration, trust, risk/reward)* - *Incentive models: share inspiration from interviews*
	• *Present annual report to "Standard contracts board"*
Change operator and contractor CULTURE	• *Conduct experience sharing workshops across companies*
	• *Get early focus on guideline recommendations in new development projects – selected lighthouse projects*
	• *Challenge top management to communicate what we are trying to achieve in the different operator/contractor companies*
	• *Share annual report to implementation network (++)*

Feedback from respondent groups
Based on survey and conducted interviews

OPERATORS

- Operators are the most positive respondent to the current situation
- Operators are also the group with the largest positive development in their feedback from 2019
- Low variation in feedback between different questions (operators are on average moderately positive to all topics)

CONTRACTORS

- Feedback from contractors indicates a slight improvement from 2019, where they as a group were the most negative regarding the situation
- Complexity in documentation, lack of incentives and technical requirements are highlighted as obstacles for simplification, more use of supplier expertise and sustainable margins
- Contractors are the group with the most coherent feedback

SUPPLIERS

- Suppliers see the largest improvement potential
- Suppliers survey feedback has a negative trend from 2019
- Standardisation and follow-up of documentation (1), and over-specification (2), are highlighted as the most potent improvement areas.

Key takeaways
Based on survey and conducted interviews

There is focus and will to make change

Transforming intentions into execution is challenging – but when we do it is a success!

Price pressure trumps structural improvements to reduce total cost

High potential for improvements in contracts & requirements - stimulate simplification and standardisation (limited contractual flexibility for contractors)

Predictability and collaboration over time are key enablers

Maritime Benchmark 2020 - key feedback from supplier industry
Takeaways for learning – Operators and Contractors

01
STANDARDISATION – all the way through

Oil & Gas procurement processes **over-specify more throughout project execution**

02
PROJECTS COMPLEXITY – ability to differentiate

Maritime industry is better at **adjusting requirements and specifications to project complexity**

03
CONTRACTORS ROLE – streamline through all layers

Operators and contractors will benefit from working together to improve supply chain behavior in a project

04
SUPPLIER INVOLVEMENT – the competency is already there

Suppliers experience a **low degree of involvement from Oil & Gas clients and little ability to impact** choice of solutions

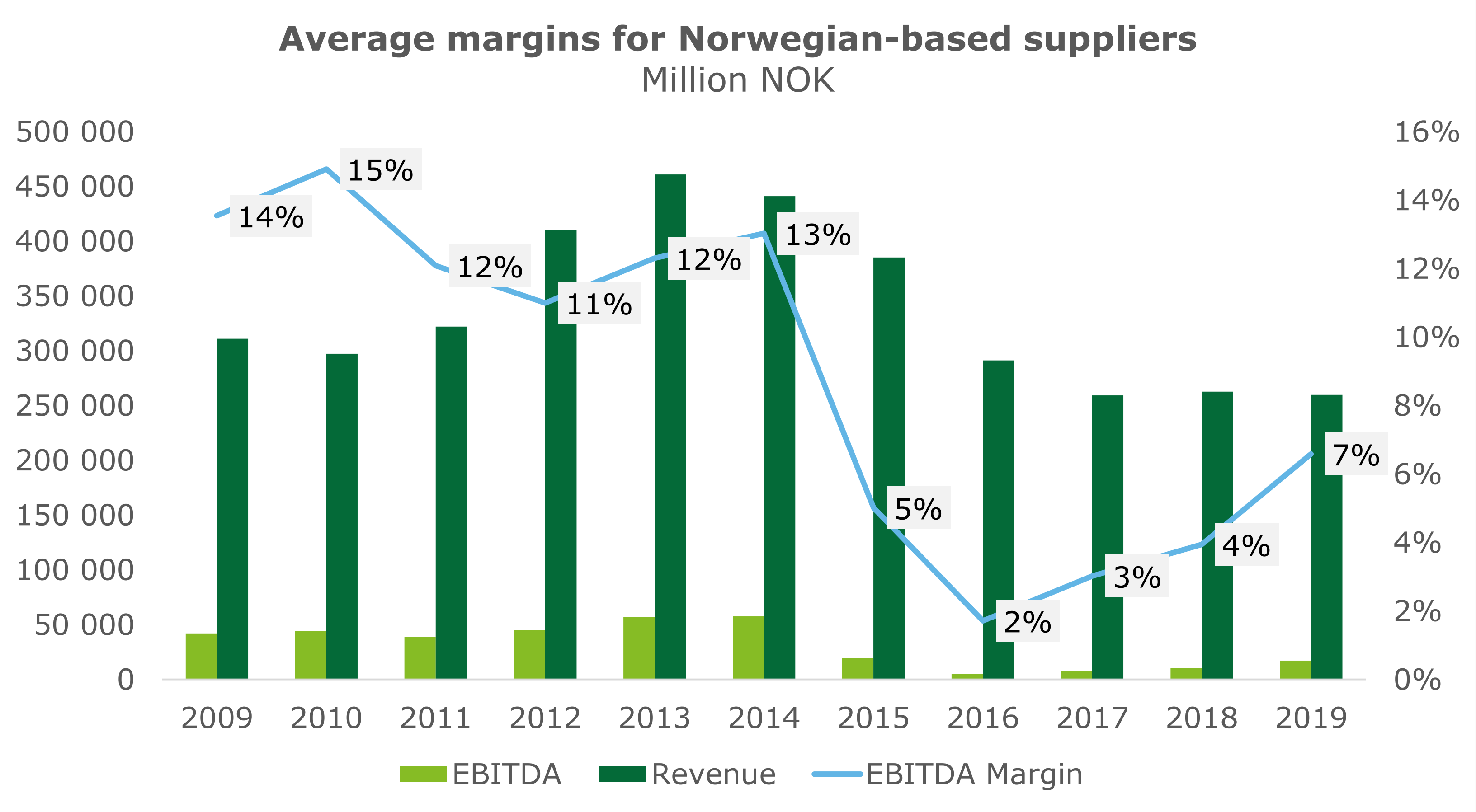
05
CONTRACTS – also a tool for improvement

Contracts are not supporting standardisation and simplification. Should stimulate cost efficiency.

Commercial effect

Edvard Grieg, Nordsjøen

Margin picture
Feedback from interviews is significantly lower margins in the service industry

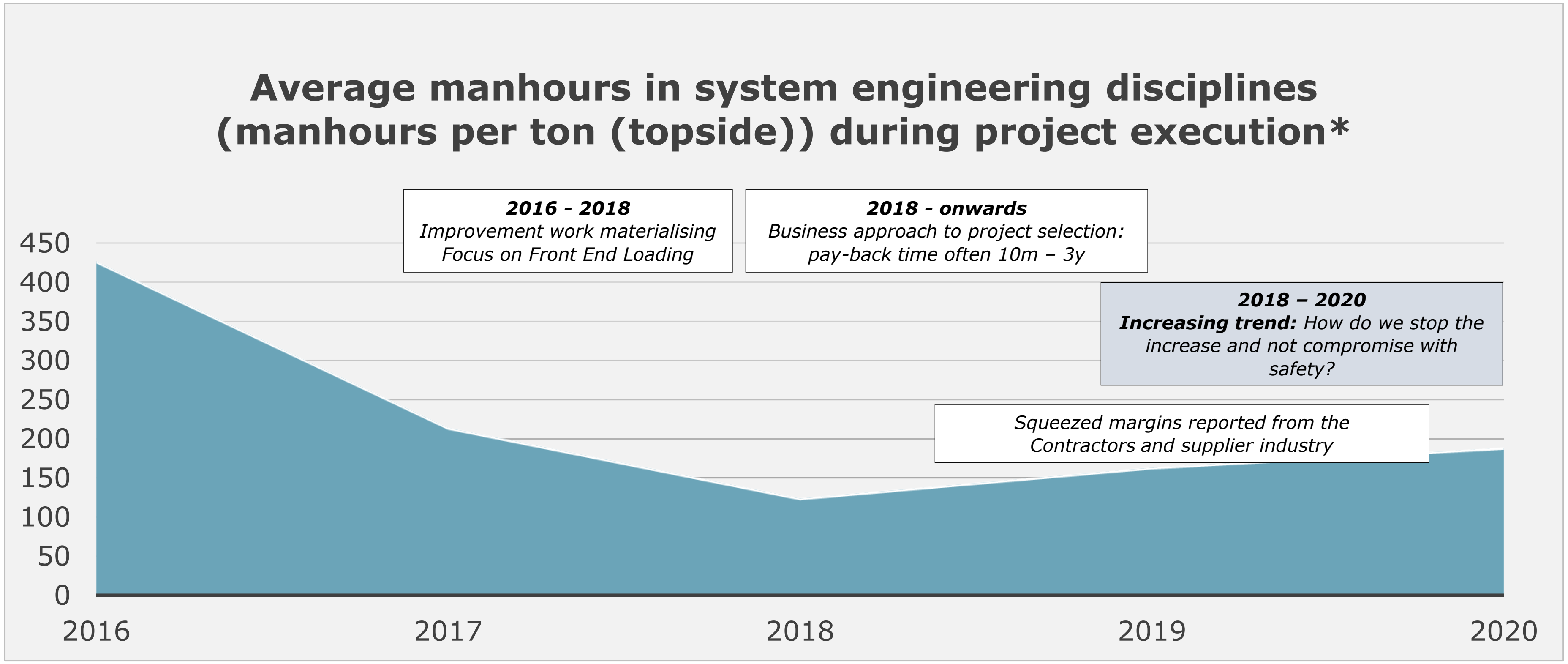


Comments

- Significantly lower turnover today than in 2014 for the supplier industry
- EBITDA at low levels
- 2020 and 2021 are expected to be challenging
- Numbers are representative for NCS (including maritime)
- Rystad Energy have obtained all numbers from Brønnøysund

Source: Rystad Energy Research and Analysis

Cost efficiency
How do we maintain efficiency and prevent cost creep?



Going forward there should be focus on ***Smart Design**** ***and efficient collaboration***

In order to succeed and get significant results it is essential to ***change the way we work together***

Data from FERM *(Forum For Exchange Of Experience And Results From Modification Projects)* is an operator owned database with experience data from execution of modification projects. The following operators participates and jointly owns the FERM database: Aker BP, ConocoPhillips, Equinor and Shell

Note: 2020 includes data from 3 operators (4 in 2019)

**Cost efficient and robust configuration based on standard solutions

Ability to change

Ringhorne, Nordsjøen

Increase use of industry Standard Delivery Feedback from industry

Questions and responses

	Operator	Contractor	Supplier
To what extent are industry standard equipment solutions normally utilised?	🟢➡	🟡⬆	🔴⬇
To what extent is standard equipment treated as standard equipment in the project? (including documentation and follow-up)*	🟢	🟡	🟡
To what extent are industry standard requirements utilised?	🟢➡	🟢⬆	🟡⬇
To what extent are standard documentation, and pre-defined follow-up of documentation normally utilised?	🟢➡		🔴⬇
To what extent do you perceive the documentation requirements as efficient and fit for purpose?*		🔴	
To what extent do buyers over-specify their request?[1]			🔴⬇

Comments

- **Suppliers feedback** is significantly **more negative than Operators and Contractors**, and has a negative trend from 2019
- Standardisation and follow-up of documentations, in addition to buyer specification are the areas with **the most negative feedback and trend**
- **Positive development in management attention** and will to standardize, but still slow progress in practical results
- **Improvement potential in harmonization** between operator standard and standard supplier deliveries
- **Holistic and long-term focus** to give predictability is likely to contribute to positive results
- **Potential in higher cost-benefit focus and consideration of remaining field life time** when deciding on technical and documentation requirements

Limits: 2,8 3,2

⬆ Positive trend ⬇ Negative trend ➡ Flat trend

*New questions in 2020 survey

1. Opposite high/low score interpretation

Better and earlier use of supplier expertise
Feedback from industry

Questions and responses

	Operator	Contractor	Supplier
Has key supplier(s) been identified, selected and informed (prior to optimisation and freeze of scope)?	🟢↑	🟢↑	🟢↑
Has key supplier(s) expertise and technology been utilised pre-PO and contributed to optimisation and smart integration?	🟢↑	🟡↑	🔴↓
To what extent is the lead time in engineering efficient pre PO-issue?	🟢↑	🟡↑	🟢

Comments

- **Positive overall development in feedback related to use of supplier expertise**
- **Exception:** how suppliers see utilisation of their expertise and technology, and how they contribute – **negative development and a clear gap between operator and supplier view**
- Building longer-term **predictability from operators will benefit the collaboration** and involvement (e.g. alliance model)
- **Waste in supplier selection and duplication of processes** (e.g. requesting/providing equal or similar information several times)

Limits: 🔴 2,8 🟡 3,2 🟢 ↑ Positive trend ↓ Negative trend → Flat trend

*New questions in 2020 survey

Align drivers across the supply chain
Feedback from industry

Questions and responses

	Operator	Contractor	Supplier
To what extent does the contracts support common drivers across the supply chain to remove unnecessary work, stimulate collaboration and contribute to fit for purpose delivery?	🟢⬆	🟡⬆	🔴⬆
To what extent are drivers aligned, communicated and understood by all parties?	🟢⬆	🟢⬆	🟡⬆

Limits: 2,8 3,2

⬆ Positive trend ⬇ Negative trend ➡ Flat trend

*New questions in 2020 survey

Comments

- Development related to alignment of drivers is **positive,** but starting from a low baseline
- There is a **conflicting view** between parties interviewed regarding how well current incentive models are working
- Interviewed contractor companies were significantly more negative than survey results
- **The following points are often good principles to build incentive models on**
    - Balance risk and reward (ensure risk transparency and effective allocation of risk)
    - Include lifetime considerations (joint drivers to optimize Total Cost of Ownership)
    - Incentives to find smarter solutions (win win)
    - Predictability in relations (building of trust)
    - Build flexibility

- There is a **deviation in behaviour and efficiency related to which contract incentives are in place** (hours only or other incentives)

Change operator and contractor culture
Feedback from industry

Questions and responses

	Operator	Contractor	Supplier
To what extent do you experience positive change in behaviour related to the guideline recommendations?*	●	●	●
Based on previous questions: How efficient and predictable are the project clients (operator and/or contractor) compared to similar clients in other relevant industries (e.g maritime oil and gas clients)?			● ⬇

Comments

- **Operators experience, opposite to contractors and suppliers**, that there has been a positive change in behavior related to the guideline recommendations
- Suppliers: Clients in other comparable industries are still **substantially more efficient**
- There is a general **positive development in focus and attention** on guideline recommendations, particularly from management level
- There is however **still a way to go to translate into change of practice** and reach all layers and functions in the organizations

Limits: 2,8 3,2 ⬆ Positive trend ⬇ Negative trend ➡ Flat trend

*New questions in 2020 survey

Appendix

Oseberg sør, Nordsjøen

Annual survey 2020 results and development from 2019

		Operator	Contractor	Supplier
Increase use of industry STANDARD DELIVERY	• To what extent are industry standard equipment solutions normally utilised?	3,3 (-)	2,9 (+0,1)	2,4 (-0,6)
	• To what extent is standard equipment treated as standard equipment in the project? (including documentation and follow-up)*	3,6	2,9	2,8
	• To what extent are industry standard requirements utilised?	3,4 (-)	3,7 (+1,0)	2,9 (-0,3)
	• To what extent are standard documentation, and pre-defined follow-up of documentation normally utilised?	3,5 (-)		1,6 (-1,1)
	• To what extent do you perceive the documentation requirements as efficient and fit for purpose?*		2,7	2,5
	• To what extent do buyers over-specify their request? *(Opposite high/low score interpretation)*			4,0 (+0,7)
Better and earlier use of SUPPLIER EXPERTISE	• Has key supplier(s) been identified, selected and informed (prior to optimisation and freeze of scope)?	3,8 (+0,5)	3,9 (+0,1)	3,2 (+0,3)
	• Has key supplier(s) expertise and technology been utilised pre-PO and contributed to optimisation and smart integration?	3,9 (+0,6)	3,2 (+0,2)	2,2 (-0,6)
	• To what extent is the lead time in engineering efficient pre PO-issue?	3,6 (+0,6)	2,9 (+0,1)	3,2*
ALIGN DRIVERS across the supply chain	• To what extent does the contracts support common drivers across the supply chain to remove unnecessary work, stimulate collaboration and contribute to fit for purpose delivery?	3,5 (+0,6)	3,0 (+0,7)	2,8 (+0,6)
	• To what extent are drivers aligned, communicated and understood by all parties?	3,5 (+0,6)	3,7 (+1,6)	2,9 (+0,1)
Change operator and contractor CULTURE	• To what extent do you experience positive change in behaviour related to the guideline recommendations?*	3,6	2,8	2,4
	• Based on previous questions: How efficient and predictable are the project clients (operator and/or contractor) compared to similar clients in other relevant industries (e.g maritime oil and gas clients)?			2,6 (-0,5)

Scoring values: 1 = Not at all 2 = To a small extent 3 = To some extent 4 = To a great extent 5 = To a very great extent

Limits: 2,8 3,2

(development from 2019)

*New questions in 2020 survey

Interview guide
All questions related to Joint Industry Guideline for Standardised Supply Chain Behaviour

General	• How familiar are you with the industry guideline? • How do you see the development in the industry practice and culture over the past 1-2 years?
Topic specific	• Largest unrealised potential related to: Increased use of standard delivery • Largest unrealised potential related to: Better and earlier use of supplier expertise • Any good examples from projects with well-understood incentives that were aligned between all parties? • What do you see as the largest bottle necks/barriers to achieve change in culture and practice? • Emphasize main differences between maritime (rig owners and ship owners) and oil & gas clients (for suppliers only)
Implementation	• Do you see any low hanging fruits to take out benefits of recommended guideline best practices? • Do you have any recommendations to specific measures to increase the effect of the implementation effort?
Other	• Open: anything to add to this topic?

Executive summary

Maritime Benchmark (conducted spring 2020)

Survey results summary

	KPI QUESTION	OIL & GAS	MARITIME
Increase use of industry STANDARD DELIVERY	• *To what extent are industry standard equipment solutions normally utilised?*	🟢	🟢
	• *To what extent is standard equipment treated as standard equipment in the project?*	🟡	🟢
	• *To what extent are industry standard requirements utilised?*	🟢	🟢
	• *To what extent are standard documentation normally utilised?*	🟢	🟢
	• *To what extent do buyers over-specify their request?* **Opposite high/low score interpretation*	🔴	🟢
Better and earlier use of SUPPLIER EXPERTISE	• *To what extent does the buyers normally involve you as suppliers in demand specification prior to issue of PO?*	🔴	🟢
	• *To what extent are you normally able to impact the clients choice of solution (when standardisation, simplification and improvement are possible)?*	🔴	🟢
ALIGN DRIVERS across the supply chain	• *To what extent does the contract support utilisation of supplier standard solution and simplification of the delivery?*	🔴	🟢
Change operator and contractor CULTURE	• *Based on previous questions: How efficient and predictable are the clients?*	🔴	🟢

Limits: 🔴 2,8 🟡 3,2 🟢

Executive summary

DIFFERENCES

- Maritime industry performs better than Oil & Gas in **adjusting requirements** to the complexity of the project scope
- Oil & Gas clients have a **higher degree of contractors** involved which complicates the collaboration

OIL & GAS*

- Oil & Gas procurement processes is based on standardised equipment, requirements and documents, but is **to a large extent over specified**
- Suppliers experience **a low degree of involvement** and possibility to impact choice of solutions
- Oil & Gas clients have a **significant improvement potential to be perceived as efficient and predictable**

MARITIME*

- Feedback indicates that **vessel owners tend to choose more standardised solutions** than rig owners
- The industry still has some way to go when it comes to **involving suppliers to optimise solutions**

SIMILARITIES

- Both industries use **standard solutions, requirements and documentation as basis** for their requests
- Both industries have a way to go on **aligning drivers and optimising contracts** to support utilisation of supplier standard solution and simplification of deliveries

*Oil and Gas clients = Operators and Contractors

*Maritime clients = Rig owners and Ship owners