Making the most of the UKCS
Collaborating for success

February 2016
About this report

Methodology
The report is based on the results of a confidential, electronic survey conducted with industry participants during July and August 2015. The data and analysis of the results are presented in the report anonymously in an aggregated format.

Demography
Sixty-one people responded to the survey. There is an even split within functions (finance, engineering/projects, operations, procurement/logistics and strategy) and job titles (board member, executive and senior management, mid-management and others – mainly project managers).

Approximately one-third of respondents were from operators and two-thirds from the supply chain.
Foreword

Welcome to the first edition of the Deloitte Collaboration Review and Index.

Nowadays, collaboration is a buzzword among those operating on the UK Continental Shelf (UKCS) – the Wood Review called for closer collaboration and Deloitte’s Making the most of the UKCS: Cultural shift key to maximising economic recovery of oil and gas (2014) also identified it as a key tool for ensuring the basin’s future. Since oil prices started falling and improving operational efficiency became a top industry priority, collaboration has regularly been cited as a cure for many of the basin’s problems at conferences and roundtable discussions.

Many in the industry speak about collaboration, but it is not actually clear what the word means and what activities and behaviours it covers. While much has been said and written about collaboration in other industries, such as the automotive industry, there is no data and little research in the oil and gas sector.

Our report fills this gap by providing actionable data and an independent view on this frequently discussed topic. It focuses on collaboration between operators and the supply chain. During the summer of 2015, Deloitte conducted a confidential industry survey. We then presented the survey data and findings at industry conferences, roundtable discussions and meetings with select companies and industry bodies over the autumn.

The report, which consists of three parts, explains the findings in more detail and includes insight – anonymised – from our presentations and discussions:

- **the Collaboration Review** covers the level and quality of collaboration across the UKCS and discusses success factors and barriers to collaboration

- **the Collaboration Index** (Index) measures the effectiveness of companies as partners in collaboration and therefore can be used as a tool for measuring efficiency. While individual company scores are kept confidential, the aggregated Index scores published here give a general indication of how effectively operators and the supply chain currently collaborate. Comparing scores from future surveys will help assess the impact of efficiency efforts to improve collaboration in the basin – as encouraged by the Oil & Gas Authority, the UKCS regulator, and Oil & Gas UK, the industry trade body

- **the Framework for Action** provides four guiding principles that companies can follow to make collaboration more effective.

It is our hope that this paper contributes to the future success of the UK oil and gas industry. We would like to thank the survey participants and Oil & Gas UK for providing us with their views and welcome any feedback.

**Geoff Gibbons**
Oil & Gas Operations Partner
Executive Summary
Survey participants said they collaborate to a high degree with their suppliers or customers in the UKCS. The majority also believe that collaboration will be crucial for their company’s future success. Currently, collaboration between operators and the supply chain is mostly driven by the need to reduce costs.

However, most participants are not satisfied with the quality of collaboration, with dissatisfaction running particularly high among suppliers. This is a major cause for concern, in that most companies primarily collaborate to reduce costs. If companies are dissatisfied with the quality of collaboration, they could be missing out on significant opportunities to rein in their spending.

What stands in the way of successful collaboration? The main reason is that collaboration means something quite different for both operators and the supply chain, and therefore their incentives are misaligned. Many also blame aggressive or adversarial commercial behaviours and a general culture of neither listening nor communicating. Some of these behaviours could be driven by rigid, centralised company structures of large international companies that could also be associated with ‘silied’ working practices.

Collaboration in many oil and gas companies is left to ‘heroes’: those few trusted individuals, who actively look for opportunities to collaborate and ensure that their partners share the benefits.

However, we believe that companies should do more to foster a collaborative environment through leadership, targeted strategies, allocated resources and personal objectives linked to rewards. Successful collaboration depends on encouraging workforce to focus on the end-result, sharing goals and empowering staff to accept compromise, rather than systems and processes.

The Collaboration Index 2015 score is 6.1 out of 10. Although this is positive, it clearly shows that there are opportunities for improvement. While a good brand and reputation promote collaboration, both operators and the supply chain should do more to improve financial incentives and contractual terms to encourage collaboration. Our survey data shows that operators especially need to improve in areas that foster innovation – such as seeking out new ideas and solutions, or implementing change effectively.

Collaboration is a tool that needs to be used as and when it helps address an issue. We cannot collaborate with everyone all the time: collaboration has to be specific and focused. But, creating a culture and organisation where the workforce is empowered and incentivised to collaborate will be crucial in reducing costs and improving efficiency across the basin.
Collaboration Review
Discussions with industry executives at conferences reveal just how differently they think about supply chain collaboration. Operators say that they have strong relationships with their suppliers and collaborate fully, while supply chain companies argue that there is little meaningful collaboration in the UKCS and, as oil prices fall, even those pockets of goodwill soon disappear on both sides.

This report aims to provide answers to a number of questions surrounding the industry, such as: What is the level and quality of collaboration in the UKCS? Why do operators and the supply chain collaborate? What do companies mean by collaboration? What are the success factors and what are the barriers?

### High level of collaboration in the UKCS now…

Almost three-quarters of survey participants told us that collaboration is an integral part of how they do business (Figure 1). This is a positive sign and clearly shows that the industry recognises the importance of working more closely with their customers/supply chain.

Interestingly, however, over a fifth do not think that their companies collaborate. The vast majority of these responses are from the supply chain, who feel that operators only require them to execute the terms of the commercial agreement to the letter, and few of their efforts to engage with the operators have been appreciated.

### …and also crucial for the future

Participants want to be considered good collaborators by their customers or suppliers in the UKCS. Figure 2 shows that maintaining and improving these relationships will be crucial for their future success.
Perhaps contradictory, participants who said that their companies are not currently collaborating confirmed that their organisations are taking steps to improve on collaboration.

**Cost reduction drives collaboration between UKCS operators and their supply chain**

The need to reduce costs is the main reason for collaboration between operators and the supply chain (Figure 3). While this is hardly surprising given the current oil price environment, it is in contrast to what has happened in the automotive industry.

The automotive sector has already gone through a painful period of cost reduction and efficiency improvement programmes, and emerged much leaner and fitter. This was mostly possible through building strong collaborative relationships between car assemblers and their suppliers. Discussions with Deloitte clients in the automotive industry indicate that supply chain collaboration now focuses mostly on innovation or knowledge sharing, rather than cost reduction.

![Figure 3. Principal reasons for collaboration in the UKCS (% of responses)](image)

- Reduce cost: 30%
- Increase market access: 19%
- Share knowledge or learning: 17%
- Reduce risk: 17%
- Fill capability gap: 9%
- Other: 5%
- Fiscal or tax reasons: 3%

n=108 responses
Source: Deloitte analysis
Quality of collaboration in the UKCS – improvements needed

Figure 4 highlights a very important issue in the UKCS: the quality of collaboration and therefore the quality of the relationships between operators and the supply chain needs to improve. With only a quarter of efforts being successful more than half the time, it is clear that there is a high level of dissatisfaction with the results of collaboration.

This is a particular concern as cost reduction, which is top of the agenda for everyone in the basin, is the main reason for collaboration, and companies seem to spend a considerable amount of time and effort on collaborative relationships.

The poor execution of collaboration points to missed opportunities that could help meet business objectives. Given that the vast majority of participants consider collaboration crucial to their future success, it is imperative that companies understand how they can collaborate more effectively.

Another cause for concern is that a fifth of participants did not know what proportion of their collaborative efforts were successful in the previous 12 months. The vast majority of these participants were executives.

Dissatisfaction in the supply chain

Figure 5 breaks down the data in Figure 4 by company type and reveals that dissatisfaction runs significantly higher among supply chain companies than operators. Almost one in three supply chain participants reported that less than a quarter of their efforts were successful. This is significantly higher than the 11 per cent of operators.
This reflects a general sense of frustration among supply chain companies, particularly given the low oil price environment. As soon as oil prices started falling, operators asked for immediate price reductions from suppliers and contractors. An operator told one supply chain executive: “We want what we had last year but 20 per cent cheaper.” Most supply chain companies have now reduced prices to the point where they hardly make any profit and companies feel that there is little willingness or support from operators to help them survive.

**Cost and risk reduction vs business development?**

We deliberately did not define the term collaboration in the survey, nor did we ask participants to describe what they meant by it. Instead, we formulated the questions in a way that would enable us to understand what industry means by collaboration and the behaviours they associate with it.

Further analysis of the data behind Figure 3 – displayed in Figure 6 – reveals that beyond cost reduction, operators and the supply chain have different motivations for collaboration.

Operators collaborate to reduce costs and risk i.e. they transfer risk to the supply chain. In contrast, supply chain companies consider collaboration as a business development tool. After cost reduction, they want to increase market access and share knowledge/learning, i.e. educate their customers about their products and services.

These two different ways of looking at collaboration are likely to turn many relationships in the basin adversarial. Both operators and the supply chain commented on the time and effort spent on inconclusive engagements.

![Figure 6. Principal reasons for collaboration in the UKCS](image-url)

Operators felt that the supply chain often wanted to ‘sell’ them products and services they did not need rather than provide them with solutions they wanted. In contrast, supply chain companies thought they were spending too much on business development while trying to ‘second guess’ what operators wanted, instead of developing focused products and services that operators needed. A number of supply chain participants also mentioned that operators’ Contracts and Procurement (C&P) functions often make it more difficult for them to learn directly from their business users.

The recent *Deloitte Global CPO Survey 2016*, a survey of Chief Procurement Officers (CPO), found that less than ten per cent of Energy and Resources CPOs were involved in risk management. This is surprising, given that such a high proportion of operators are collaborating in order to reduce costs and manage risk.
Barriers to collaboration – mostly commercial and cultural

Our research shows that most collaborative efforts failed because of aggressive or adversarial commercial behaviours and the lack of willingness to listen or communicate. Participants repeatedly told us that these are systemic and accurately describe the UKCS working culture. While shareholder and commercial pressures understandably drive operators in the current environment to secure the best deal or to obtain a price reduction, many operators find that focusing on strictly transactional costs does not always provide the highest value. Aggressive cost reduction programmes on the part of operators can also damage the supply chain’s capability to serve or to innovate.

The main barrier to collaboration is the misalignment of expectations (Figure 7). What does this mean? As highlighted in Figure 6, operators and the supply chain typically arrive at a meeting with different agendas: the operators want help to reduce costs and transfer some risk, but often feel they are ‘being sold to’. A number of operators told us that engagement with the supply chain would have been more successful if suppliers came with solutions to specific problems that operators had. Both parties would leave a meeting dissatisfied and frustrated, with the supply chain concluding that operators had the better deal and were not open to ideas that could benefit them.

Lack of trust was also mentioned as a barrier to collaboration. The supply chain in particular felt that operators thought they were being overcharged and that suppliers had better margins than they actually did.
Foundations for successful collaboration
1. Trust, mutual benefits and being proactive

Our research suggests that collaboration in the UKCS is cultural and is driven by behaviours, rather than business processes.

Figure 8 shows that trusted relationships, projects beneficial to both parties, and being proactive in seeking out opportunities to collaborate drive almost three-quarters of successful collaboration.

In contrast, leadership or business strategy account for less than ten per cent each. At a combined seven per cent, business processes (including internal investment in resources to manage collaboration or individual performance measures linked to collaboration) make up an even smaller proportion of successful collaboration efforts in the UKCS.

What does this mean? It means that collaboration is left to ‘heroes’, a small number of individuals with trusted relationships, who actively look for opportunities to work with customers/suppliers and who are prepared to share the benefits.

According to our survey results, there seems to be little strategic investment and encouragement from leadership to enhance relationships with partners – although we have also encountered organisations where leadership did send out messages on collaboration, but these simply failed to have an impact on the workforce.

In most organisations, personnel do not seem to be incentivised to develop collaborative behaviours. Some staff simply do not have the authority to make decisions, such as sharing benefits, while for others incentives are linked to reaching particular objectives without any reference to how they should be achieved.

Considering that the main reason to collaborate is to reduce cost and improve performance, should such an important issue be left to only heroes? Should it not be part of a company’s culture, driven by strategy and effective leadership?

Figure 8: Principal reasons for successful collaboration

<table>
<thead>
<tr>
<th>Behaviours</th>
<th>% of responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>You have established trusted relationships with the other party</td>
<td>29%</td>
</tr>
<tr>
<td>You have ensured that there is mutual benefit for you and the other party</td>
<td>24%</td>
</tr>
<tr>
<td>You have actively sought out opportunities to collaborate</td>
<td>20%</td>
</tr>
<tr>
<td>Your organisation’s business strategy encourages collaboration with other companies</td>
<td>9%</td>
</tr>
<tr>
<td>Your leadership regularly communicates within your organisation the importance of collaboration with supply chain/operators for the future of the business</td>
<td>9%</td>
</tr>
<tr>
<td>Your organisation has invested significant resources in managing collaboration</td>
<td>4%</td>
</tr>
<tr>
<td>You have encouraged collaboration through individual performance measures linked to rewards</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
</tr>
</tbody>
</table>

n=106 responses
Source: Deloitte analysis
2. Focus on the end-result, shared goals and compromises
As Figure 9 shows, participants believe that the most effective way to collaborate is to focus on the end-result and work out with the partner what is the best way to achieve it. This would mean getting all parties involved early so that the project can benefit from their experiences and capabilities throughout its entire lifecycle.

Supply chain participants in particular believe that the ability to compromise plays an important role in successful collaboration. This is reflected in their view that operators often draw more benefits from working relationships – as they hold the purchasing power and are not willing to compromise.

Finding shared goals is also crucial – otherwise the relationship does not make good business sense and could easily favour one party.

Figure 9 clearly shows that the industry knows what the right behaviours for successful collaboration are. Being encouraged to demonstrate these behaviours is the next step towards more effective collaborative relationships.

![Figure 9. Behaviours for effective collaboration (% of responses)](image)

Focus on the end-result and working with other organisations on how to get there

Working towards shared goals while making compromises

Working with other organisations to achieve shared goals

Jointly creating rules, aligning decisions and incentives

Working with other organisations over and above the contractual terms

Other

n=100 responses
Source: Deloitte analysis
3. Continue collaborating in existing forums
Participants believe that existing forums effectively promote collaboration. Figure 10 confirms that being proactive in building relationships – through meetings and workshops – plays an important role in collaboration.

Informal meetings where operational or financial information is shared was ranked second in importance in effective collaboration. The fact that both operators and suppliers are concerned about their ability to share company information is often viewed as a barrier to more effective collaboration. These concerns are being reviewed by the Oil & Gas Authority with the Competition & Markets Authority.

Participation in industry forums and trade associations is also considered an important way of collaborating, offering good opportunities for sharing knowledge and learning as well as building relationships.

While informal and social interactions appear at the other end of the spectrum, some participants believe that these are more effective in helping collaboration than they are currently given credit for.

Overall, Figure 10 paints a positive picture of an industry that is used to collaborating and does it in a number of ways. However, more collaborative behaviours outside contractual working engagements need to form part of the industry’s everyday working practices.

Figure 10. Importance and effectiveness of various forums in facilitating collaboration

<table>
<thead>
<tr>
<th>Total responses</th>
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<tbody>
<tr>
<td>180</td>
</tr>
<tr>
<td>161 156</td>
</tr>
<tr>
<td>131 136</td>
</tr>
<tr>
<td>130 124</td>
</tr>
<tr>
<td>128 120</td>
</tr>
<tr>
<td>92 106</td>
</tr>
</tbody>
</table>

Meetings and workshops organised by you
Informal meetings where you share operational/financial information
Your membership of industry forums and trade associations
Meetings and workshops organised by other companies
Informal/social interactions

How important | How effective  
---|---
How important | How effective

n=responses from 42 participants, ranking from 1 to 5
Source: Deloitte analysis
Collaboration Index 2015
What is the Collaboration Index?

The second part of the survey is called the Collaboration Index (Index), where survey participants confidentially rated their partners as collaborators.

The Index consists of 12 positive statements that participants were asked to agree or disagree with across three main domains: Openness, Incentives and Business processes. Participants could provide feedback on up to four companies they collaborated with in the previous 12 months.

The ratings were aggregated to provide a numerical Index score for each company ranging from 1 to 10. The higher the Index score, the better collaborator a company is considered to be by its partners. These scores form the league table of peers: the operators’ league table, the supply chain league table and the industry-wide league table that incorporates both. These league tables and the individual company Index scores remain confidential.

However, in Figure 11 we provide the aggregated scores for operators, the supply chain and industry for each question as it appeared in the survey.

At confidential meetings a select number of companies were given their individual Index scores and their position on the league table of peers – without revealing the scores of others.

Why does the Index matter

The current Index can be viewed as a baseline measure of efficiency, with future surveys to be used to assess the impact of efficiency measures taken. This is because our initial analysis suggests an inverse relationship between an operator’s Index score and its production costs. A high level analysis of companies’ publicly available production costs and our Index scores show that the higher an operator’s Index score is, the lower its production costs are. While production costs depend on a number of factors that are outside the control of an operator, strong relationships with the supply chain, manifested by a high Index score, should help the operator manage production costs better.

The Index highlights areas of underperformance and helps companies assess their own position against their peers. This in turn can help organisations identify areas where closer collaboration with the supply chain/operators can help improve their performance.

Collaboration Index 2015: Results are positive, with clear opportunities for improvement

The industry-wide Index 2015 score is 6.1 out of 10 in the UKCS, as Figure 11 shows.

While the overall score is positive, it is clear that there are opportunities for improvement, in particular in encouraging collaboration by financial means, better contractual terms, and in the areas of innovation and future engagements.

Brand and reputation play key roles in encouraging collaboration and attracted the highest scores across the board (Question 7 in Figure 11). At our confidential meetings, we also asked company executives whether they could focus more clearly on the opportunities in using the power of their brand to encourage collaboration.

Financially incentivising collaboration was the lowest scoring area as shown in Question 5 in Figure 11. Our discussions suggest that a lack of trust and transparency in pricing structures and aggressive price reduction strategies are behind these low scores.
Operators that scored particularly well in this area told us that they were happy to share the financial benefits of a project equally as they wanted their supplier to do well in order to continue providing them with a high quality service. This may be especially important in the current environment, where the disappearance of supply chain companies in one particular segment may leave a gap in the basin’s skill set.

Within the framework of existing relationships, as shown in Question 6 in Figure 11, using the terms of a contract to encourage collaboration scored somewhat better than financial incentives, but this is still an area that both company types need to address – together. Supply chain companies have frequently referred to contracts that are too prescriptive and narrow in scope, which leave them little room to innovate. Adhering to strict company specifications and internal standards also made products significantly more expensive to design and make. Similarly, not sharing knowledge and ideas, and not re-using solutions encourages ‘gold plating’ and does not help the industry standardise more.

Operators rated supply chain companies more highly overall on the majority of questions than vice versa. Willingness to collaborate – Question 2 in Figure 11 – where operators had lower scores could reflect the difference in how supply chain companies and operators view collaboration, as described in Figure 6.

Innovation appears to be another area of concern for operators. Operators scored significantly below the supply chain on Questions 9 and 10 in Figure 11 (encouraging input early in a project and proactively seeking out new ideas and solutions).

Many operators that did relatively well in existing working relationships (such as trust, contracts and brand) scored poorly in areas key to finding new solutions for growth or new ways of working. This is an important area to consider for an industry that prides itself on pushing engineering boundaries, particularly in the current low oil price environment.

Implementing change effectively (Question 11 in Figure 11) is the second lowest scoring area for operators. Supply chain executives shared examples with us where operators failed to act on suggestions that would have clearly saved money or would have made production more efficient for them. Operators often blame these failures to act on their centralised organisational structures, where local management must follow orders from the corporate centre or operate in functional silos to meet specific objectives.

A number of operators admitted that these rigid organisational structures add little value, but significantly increase costs.

**Relationship between operators’ capability and the Collaboration Index**

Operators’ capabilities and behaviours are key to improving collaboration with the supply chain and therefore increasing efficiency in the UKCS.

Based on discussions with industry participants, Figure 12 summarises the key characteristics of low and high performing operators in each of the three categories of the Collaboration Index. Incentivising and rewarding the workforce to demonstrate behaviours consistent with high performance should drive improvements.
**Openness**

1. Is a partner that communicates well with you.
2. They are willing to collaborate with you.
3. You can trust them when working together.
4. Overall, a good level of openness exists between you and them.

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**Incentives**

5. They incentivise you financially to collaborate.
6. The terms of your commercial agreement with them effectively promote collaboration.
7. Collaborating with them enhances your reputation.
8. Overall, they help you improve your business.

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**Business processes**

9. They encourage input from you early in the project.
10. They proactively seek out new ideas and solutions.
11. They have a track record of implementing change effectively.
12. Overall, it is easy for your organisation to work together with them.
### Openness

<table>
<thead>
<tr>
<th>Operators’ low performance capabilities</th>
<th>Operators’ high performance capabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Communication directed though procurement – there is limited interaction between supplier and operator business users.</td>
<td>• Willingness to share knowledge and engage with suppliers beyond C&amp;G processes fostering transparency.</td>
</tr>
<tr>
<td>• Communication limited outside of formal processes.</td>
<td>• Strong leadership messages on collaboration at all levels.</td>
</tr>
<tr>
<td>• Cooperation limited by lack of trust, an adversarial relationship is apparent.</td>
<td>• Regular dialogue between business users and supplier teams as well as support from C&amp;G, realigning contracts as needed.</td>
</tr>
<tr>
<td>• Collaboration is clearly less valued than a tactical, transactional relationship driven by costs.</td>
<td>• High levels of trust built over a period of time.</td>
</tr>
<tr>
<td></td>
<td>• Conversations are about delivery, quality and value, and not cost.</td>
</tr>
<tr>
<td></td>
<td>• Alignment of expectations early on in a project.</td>
</tr>
</tbody>
</table>

### Incentives

<table>
<thead>
<tr>
<th>Operators’ low performance capabilities</th>
<th>Operators’ high performance capabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Transaction-based relationship, limited financial incentives or value-based delivery constructs.</td>
<td>• Relationships are built over the long term and contracts reflect this.</td>
</tr>
<tr>
<td>• No appetite to entertain longer-term innovative relationship ideas – focus is on ‘We want what we had last year but 20 per cent cheaper.’</td>
<td>• Value-based deals over extended periods are common and willingness to adjust to ensure fair distribution of benefits.</td>
</tr>
<tr>
<td>• Lack of loyalty and long-term relationship development.</td>
<td>• Loyalty reflected in the longevity of relationships and the number of suppliers in place.</td>
</tr>
<tr>
<td>• No desire to see suppliers profitable even if it improves own performance.</td>
<td>• Desire to see suppliers successful and stable for mutual benefit.</td>
</tr>
</tbody>
</table>

### Business processes

<table>
<thead>
<tr>
<th>Operators’ low performance capabilities</th>
<th>Operators’ high performance capabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>• No engagement of suppliers early on in projects/programmes: engagement occurs once specification/design complete.</td>
<td>• Suppliers are engaged throughout the project lifecycle.</td>
</tr>
<tr>
<td>• Complete lack of faith in supply chain to be able to provide innovation – ‘operator knows best’.</td>
<td>• Suppliers are encouraged to provide their best – functional specifications are common.</td>
</tr>
<tr>
<td>• Fixed, inflexible business processes stifle innovation and new ways of working – inability to change fast or at all.</td>
<td>• Operators are able to flex quickly to accommodate new ideas and joint ways of working more efficiently.</td>
</tr>
<tr>
<td>• Highly administrative, very difficult for leadership to effect change at lower levels prolonging poor performance.</td>
<td>• There is continuous collaboration to drive efficiency into shared processes – strong supplier relationship management culture and aligned incentives at all levels.</td>
</tr>
<tr>
<td></td>
<td>• Relationships are focused around shared goals.</td>
</tr>
</tbody>
</table>

Source: Deloitte analysis
Framework for Action
How to make collaboration a more effective tool

Collaborating is clearly difficult: numerous companies have tried and failed. This is because in many cases fundamental organisational and process changes are needed for better supply chain collaboration to have a long-lasting impact on a company’s performance.

However, change is often painful as most companies are only too well aware. Organisational structures are supported by complex systems and processes that maintain thousands of jobs and take a long time to develop. It is much easier to implement a new process or change an existing one than to cut through the complex organisational layers that one executive aptly called the “permafrost”. But without removing this permafrost, major collaboration projects have a small chance of success.

In our experience, effective collaboration has four major components: leadership, goals, alignment and results. Because most people want to be seen as taking action, many make the mistake of not spending enough time ensuring leadership support or picking the right goal for collaboration, and jump right into the third phase of ‘doing it’.

The principles of the Framework will help companies understand the challenges they need to overcome to transform their supply chain performance. They will also provide foundations in terms of leadership and focus to ensure successful collaboration.

Leadership: It all starts from the top

Drastic improvement will only happen with strong leadership support. Without this everything that comes later is at risk of failure. Leadership is about:

- empowering leaders and the workforce to work differently – allowing them to compromise, share benefits and goals
- challenging organisational structures, processes and the status quo – breaking down organisational silos in order to do things better and enable real change to take place
- enabling change at all levels – could this be time to refresh leadership teams and allow young talent that show and encourage the right collaborative behaviours to take the lead?
- showing how to do it from the top: ‘walk the walk as well as talk the talk’
- communicating clearly and consistently.
Effective collaboration

Goals: Be specific, very specific
Once the first foundation of leadership is in place you need to take action. You can only collaborate better by doing it, but collaboration has to be focused and purposeful, therefore:
• pick a small number of projects where supply chain collaboration can have a disproportionate effect on your business performance. This can be any project where the supply chain accounts for a high proportion of total spending (see page 22 for specific oil and gas sector examples)
• work with the ‘willing’ to show the way and build on these
• ensure that you are passionate about the project you picked.

Results: Measure, feedback, improve, repeat
Measuring results is crucial to understand the value of effort invested and to identify areas for improvement. Remember to:
• set a small number of key performance indicators
• collect feedback for continuous improvement
• act and repeat.

Alignment: Create structures, teams and processes around the goal
After having ensured leadership backing and picked the project, do it by:
• ensuring that organisational and process changes are well understood and can be addressed before the start
• picking the right project team – ensure that everyone knows how the project fits into their day-to-day activities, incentivise them through objectives and rewards to demonstrate the right behaviours (see Figure 12)
• making and executing the plan.
We have worked with companies on a number of examples where successful application of these four principles has led to transformational change, including:

• **Transforming drilling for ‘late life’ fields.** This focuses on optimising the end-to-end cost of drilling activities (including the supply chain) rather than trying to get to oil production more quickly. This is critical for late life and marginal fields as the economics are particularly cost-dependent and entails a completely new approach to drilling supplier models. By creating common goals and incentives for the operator and the suppliers, and aligning drilling and well services with the need for low cost late life assets, cost savings in the region of 40-50 per cent can be achieved.

• **Changing the Engineering Procurement and Construction model.** Moving to a multiple supplier approach using a range of specialist suppliers directly and streamlining processes for smaller tasks has helped reduce complexity and cost, and improve service delivery. This more flexible and collaborative method optimises the supply chain and processes for the work rather than using the ‘one size fits all’ approach and can lead to cost savings of 30-50 per cent.

• **Integrating supply chain.** Integrating processes end-to-end and sharing the benefits realised with the supply chain has helped improve response times, lower the costs, reduce and optimise inventory as well as reduce the number of unplanned shutdowns. For many companies in the industry, exposing internal processes and agreeing to sharing benefits with suppliers has been the result of a fundamental shift in behaviour. Supply chain integration can lead to cost savings in the region of 20-40 per cent improving wrench time.

Despite this progress and the opportunities it presents for the oil and gas sector, challenges remain. It is crucial for the industry to overcome working practices and assumptions that may have suited the past but not the present.

Our research provides a tool to measure the impact of efforts to improve collaboration. The Framework and principles we have developed form the basis of how organisations can begin to benefit from increased collaboration.

Becoming more collaborative is a critical part of the survival of many of the operators and supply chain companies. It is also a crucial component in maximising the economic recovery and future success of oil and gas in the UKCS.
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Further Reading from Deloitte

From the Making the most of the UKCS campaign:
1. Cultural shift key to maximising economic recovery of oil & gas

2. UKCS oil and gas fiscal framework: is it fit for purpose?

Recent global reports:
1. The crude downturn for exploration & production companies. One situation, diverse responses

2. The Deloitte Global CPO Survey 2016. Procurement: at a digital tipping point?
   http://www2.deloitte.com/uk/en/pages/operations/articles/cpo-survey.htm