Standardised Supply Chain Behaviour

Annual report – 2022

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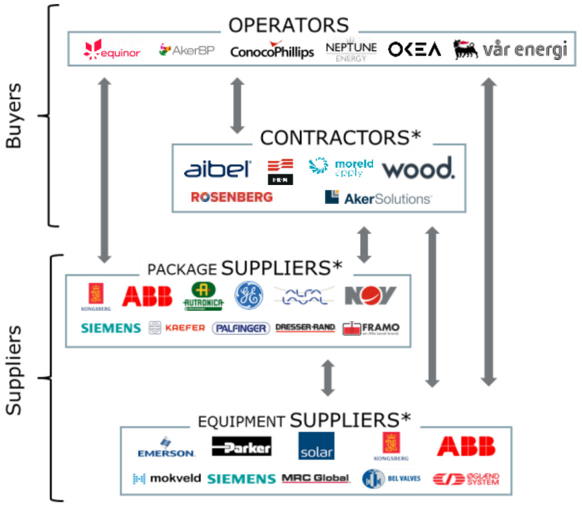
THE JOINT INDUSTRY GUIDELINE FOR STANDARDISED SUPPLY CHAIN BEHAVIOUR

Jointly owned by the industry, together with Offshore Norge and The Federation of Norwegian Industries, through the Joint industry improvement arena*

Current situation

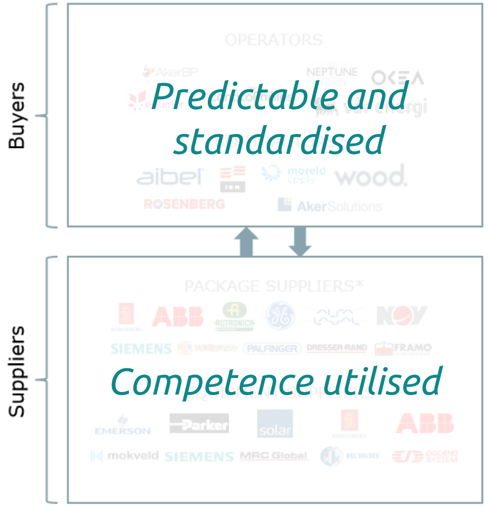


*Examples of representative companies

Joint Industry Guideline

(with corresponding checklists)

Desired situation



*Examples of representative companies

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*__Participating companies:__ Equinor, Aker BP, Vår Energi, Aibel, Aker Solutions, Wood, IKM, Moreld Apply, ABB, Kaefer

THE JOINT INDUSTRY GUIDELINE FOR STANDARDISED SUPPLY CHAIN BEHAVIOUR

The guideline highlights four main recommendations, facilitating for more efficient collaboration across the value chain

Increase use of industry STANDARD DELIVERY

By using functional requirements, standard products should be the basis for all deliveries.

Necessary customisation should be based on cost-benefit considerations.

Better and earlier use of SUPPLIER EXPERTISE

Early selection and involvement of key supplier(s) expertise for optimisation of scope.

Establish joint effort for smart design in a Total Cost of Ownership (TCO) perspective.

ALIGN DRIVERS across the supply chain

Use compensation formats and incentives to drive value creation for the overall business case as well as cost efficient design and supply chain collaboration.

Compensate key suppliers for significant and value adding engineering contributions.

Use industry standard contracts through the supply chain, ensuring transparent risk allocated where best managed.

Change operator and contractor CULTURE

Understand and avoid cost-driving behaviour.

Leadership in the companies to drive change, implement best practice and adjust based on results from benchmark.

Cross-organisational collaboration to utilise competence for value creation.

Background

The interaction between actors in the Norwegian offshore industry have historically not been functioning optimally. In 2019, Offshore Norge and the Federation of Norwegian Industries, developed together with operators, contractors, and suppliers, a set of recommendations. These aims to improve the supply chain collaboration, resulting in increased competitiveness and reduced costs.

Purpose

This report aims to measure and reflect the current state and development of the industry's ability to change in line with the Joint industry guideline. The Standardised supply chain behaviour project aims to increase the use of standardisation and improve the actors' competitiveness from deliveries of qualified technologies to top-side projects and installations.

The Joint industry guideline has four main recommendations

- Increase use of industry STANDARD DELIVERY
- Better and earlier use of SUPPLIER EXPERTISE
- ALIGN DRIVERS across the supply chain
- Change operator and contractor CULTURE

Input and methodology

The input of the annual report is provided from

- Interviews and surveys from operators, contractors and suppliers
- Commercial analysis from various contributors

CONTENT

“The year 2022 illustrates the importance of enabling an integrated effort aimed at achieving standardised behaviour in the offshore sector. This will be a key driver for entrenching the guideline recommendations in the strategy and culture in order to improve efficiency and reduce emissions on the Norwegian Continental Shelf (NCS).

We observe a positive trend towards long-term collaboration across players which increases transparency and trust. Greater use of common industry solutions will simplify processes and enhance the competitiveness in the sector. Nonetheless, a significant potential still exists to align drivers and create shared goals for all actors in our industry.”

Hildegunn T. Blindheim
Director general
Offshore Norge

Stein Lier-Hansen
Director general
The Federation of Norwegian Industries

EXECUTIVE SUMMARY ANNUAL REPORT 2022

In 2019, the Joint industry guideline for Standardised supply chain behaviour were published to remove unnecessary procedures and ineffective interactions in the Norwegian offshore industry. The guideline highlights four main recommendations to improve the supply chain behaviour. This annual report investigates the current state and the industry's ability to change according to the Joint industry guideline.

Shared experience across the value chain indicates a positive development of the implementation efforts. However, it is recommended to further anchor the guideline recommendations throughout the organisations across all actors. Successful implementation requires communication and motivation from the top management, as well as increased involvement from all relevant units within the organisation.

The year 2022 highlights a positive development in terms of increased use of long-term collaboration and transparency in the value chain. However, aligning incentives across the value chain needs further work.

Operators are increasingly using common industry solutions to simplify the documentation processes for contractors and suppliers. From 2022 it is a common recommendation from the operators to use EqHub for all new projects. This illustrates an emergence of an industrial collaboration, improving and simplifying a vital supply chain process. Further, the Checklist for Assignments of Contracts and the Joint Industrial Guideline is more frequently implemented in operators' and contractors' governing documents, indicating the guideline recommendations have rising attention.

To increase the implementation effort of the Joint industry guideline, several initiatives have been executed in 2022. To continue enforcing a positive development in 2023, the Action List describes important focus areas.

THE JOINT INDUSTRY IMPROVEMENT ARENA RECOMMENDS THE FOLLOWING FOCUS AREAS FOR 2023 TO DRIVE CHANGE

Action list 2023

Increase use of industry
STANDARD DELIVERY

Better and earlier use of
SUPPLIER EXPERTISE

ALIGN DRIVERS
across the supply chain

Change operator and contractor
CULTURE

- ***Facilitate for use of EqHub* in operator and contractor companies and strengthen onboarding of Equipment Suppliers***
- ***Identify potential best practice for incentives and risk allocation in contracts supporting guideline recommendation***
- ***Communicate Guideline recommendations at relevant forums***
- ***Establish reference to guideline check list in contractor and operator management systems***

*EqHub is a common industry service for registration and sharing of documentation and data related to equipment and spare parts

THERE IS PROGRESS IN IMPROVING SUPPLY CHAIN BEHAVIOUR, BUT THERE IS STILL A WAY TO GO

Key findings

- **Long-term and more integrated collaboration increases utilization of supplier competency and enables transparency and trust**
- **Focus on effective and efficient supplier resource utilisation meets continued high activity level**
- **Inefficient documentation requirements are still present, but positive initiatives increase the use of common industry solutions**
- **There are differences between operators versus contractors and suppliers on how well incentives are aligned and used across the supply chain**
- **Implementation efforts of guideline recommendations should increasingly be shifted towards engineering and early alignment with operational functions**

THE RESPONDENT GROUPS STILL PERCEIVE THE SITUATION DIFFERENTLY

Key findings

OPERATORS

- Positive to the increased use of standard delivery in the industry
- Perceive co-location and close collaboration, e.g. in maturation teams, in project/portfolio to be of utmost importance
- Good progress in aligning incentives for specific contracts, but acknowledge that challenges still remain
- Increased focus on balancing risk

CONTRACTORS

- Guideline recommendations are not sufficiently on the agenda, but the upside potential for the industry is acknowledged
- It is of importance that operators drive projects in line with the guideline recommendations
- Do not observe expected movement in alignment of drivers between the actors in the value chain

SUPPLIERS

- Documentation requirements are still identified as one of the main concerns
- Long-term collaboration are enhancing trust and transparency while lowering the risk for suppliers
- Lack of direct incentives to provide smart design and technologies, optimising costs, and efficiency

Commercial effect

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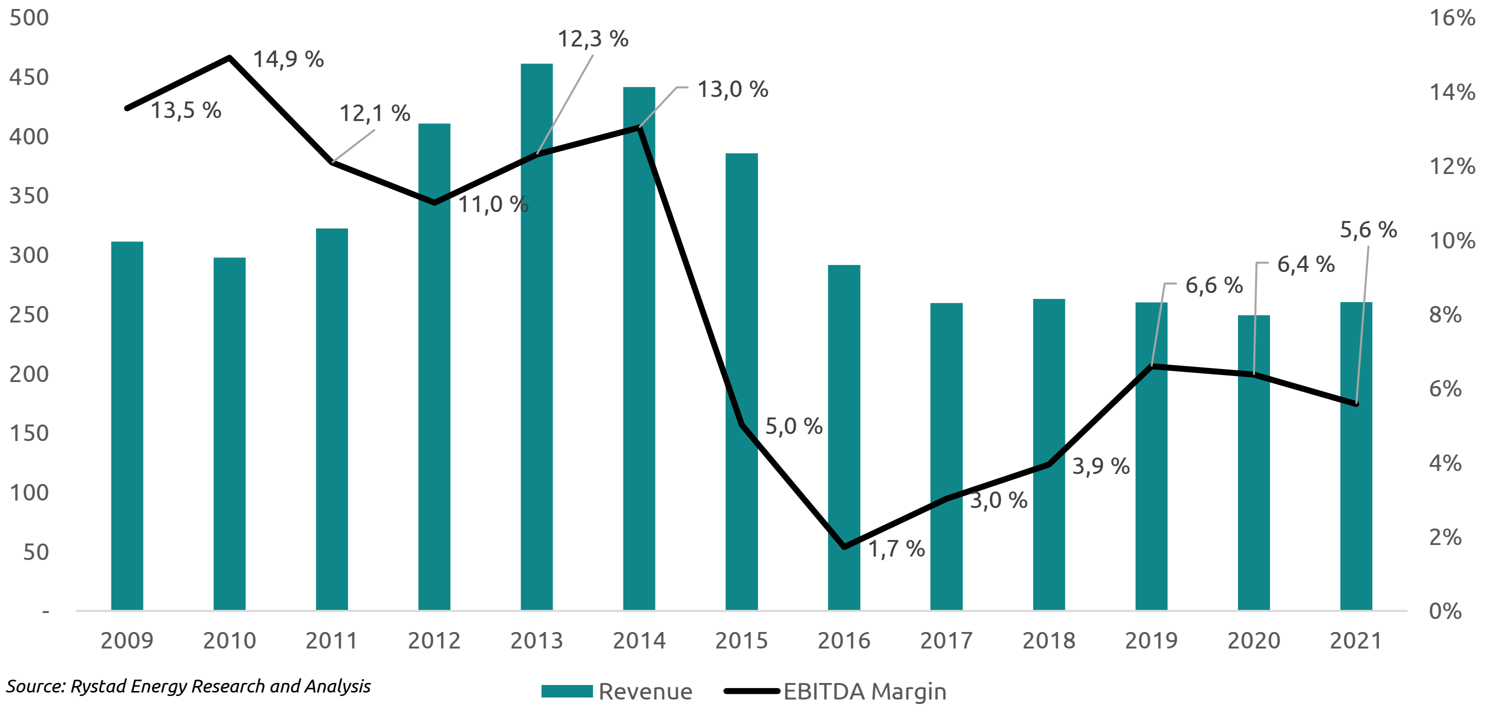
THE ACTIVITY LEVEL IS EXPECTED TO INCREASE IN THE COMING YEARS, BUT MARGINS ARE EXPECTED TO REMAIN AT LOW LEVELS

Revenue and margins for Norwegian-based suppliers
(in billion NOK)



Source: Rystad Energy Research and Analysis

Comments

- Inflation and increasing raw material prices are expected to keep margins low in 2022
    - Suppliers' challenge has been to pass the cost increase to buyers
- The activity level at NCS is expected to remain high*
- Recruitment to the industry is essential for further development of the industry
- Standardising supply chain behaviour is key to secure sustainable margins

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*2022, Offshore Norge. Investeringsanalyse for norsk sokkel 2023 - 2027

Ability to change

Increase use
of industry STANDARD
DELIVERY

Better and
earlier use of
SUPPLIER EXPERTISE

ALIGN DRIVERS
across the supply chain

Change operator
and contractor CULTURE

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INCREASE USE OF INDUSTRY STANDARD DELIVERY
Feedback from industry

	Operator	Contractor	Supplier
To what extent is 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]			🔴 ➡

Limits: 🔴 2,8 🟡 3,2 🟢

⬆ Positive trend ⬇ Negative trend ➡ No trend

There is improvement potential for the use of standard delivery

- The use of standard delivery in the industry remains at similar levels as the previous year
- Operators perceive internal processes and procedures to be mostly in line with the recommendations
- Use of standard delivery should not be handled as deviations (e.g., from internal technical requirements)
- Increasing use of common industry solutions (i.e.,EqHub and digital SPIR) is perceived as positive to simplify documentation
- There is still examples on contractors and suppliers observing increasing documentation requirements and number of revisions
- Suppliers still report an overspecification in buyers' requests for proposals

BETTER AND EARLIER USE OF SUPPLIER EXPERTISE

Feedback from industry

	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?	🟢 ↑	🔴 ↑	🔴 ↓

Limits: 🔴 2,8 🟡 3,2 🟢

↑ Positive trend ↓ Negative trend → No trend

Long-term relationships leads to better and earlier use of supplier expertise

- Better and earlier use of supplier expertise has been improving on an overall level
- Contractors highlights a need of involving suppliers in the pre-FEED/ FEED, but requires an increased mandate from operators to enable this
- Transparency, long-term relationships, and trust are essential to achieve better end-to-end project execution
- Maturation teams enable better and earlier use of supplier expertise through increased transparency and involvement
- Time constraints and delivery pressures are highlighted as obstacles for utilising supplier competency in optimisation efforts

ALIGN DRIVERS ACROSS THE SUPPLY CHAIN
Feedback from industry

	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 ➡ No trend

Aligning drivers is complex, but has high returns

- Alignment of drivers has been slightly improving on an overall level
- Aligning drivers across the supply chain has historically been perceived as particularly challenging
- Operators perceived incentives to be aligned and reports a shift from incentivising hours to project cost reduction
- Contractors and suppliers reports lack of incentives and incentive models in contracts for delivering better design and smarter solutions
- Close and long-term collaboration reduce administration cost and increase transparency between the actors
- Aligned incentive models enable earlier involvement of contractors and suppliers, improving competitiveness in the industry

CHANGE OPERATOR AND CONTRACTOR CULTURE
Feedback from industry

	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 → No trend

The industry guideline must be holistically integrated in the organisation's culture and strategy

- There is a positive development of change in the operator's and contractor's culture
- All actors acknowledge there is still a long way to go
- Consensus that operators, contractors, and suppliers should embark on collaborating as one team on all projects
- Long-term relationships, transparency, and trust are key enablers for cultural change
- The implementation effort should increasingly encompass engineering and early alignment with operational functions
- Actors are requesting show-cases and fact basis to communicate differences in efficiency from other industries and thereby drive change
- Enhancing the use of digital solutions and reducing on-site visits may increase efficiency and reduce administration

Appendix

ANNUAL SURVEY RESULTS FROM 2022 AND DEVELOPMENT FROM 2021

		Operator	Contractor	Supplier
Increase use of industry STANDARD DELIVERY	• To what extent is industry standard equipment solutions normally utilised?	3,3 (-0,2)	3,0 (-0,1)	3,0 (-0,4)
	• To what extent is standard equipment treated as standard equipment in the project? (including documentation and follow-up)	3,3 (-0,6)	2,8 (+0,1)	2,8 (-0,6)
	• To what extent are industry standard requirements utilised?	3,7 (-0,3)	3,2 (+0,4)	3,9 (+0,2)
	• To what extent is standard documentation, and pre-defined follow-up of documentation normally utilised?	3,5 (-0.3)	2,6	3,4 (–)
	• To what extent do you perceive the documentation requirements as efficient and fit for purpose?*		2,4 (+0,2)	2,6 (-0,7)
	• To what extent do buyers over-specify their request? *(Opposite high/low score interpretation)*			3,5 (–)
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 (-0,1)	3,0 (–)	3,6 (+0,4)
	• Has key supplier(s) expertise and technology been utilised pre-PO and contributed to optimisation and smart integration?	3,8 (-0,1)	2,6 (+0,3)	3,2 (+0,2)
	• To what extent is the lead time in engineering efficient pre PO-issue?	3,8 (+0,3)	2,8 (+0,4)	2,7 (-0,2)
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?	3,2 (-0,2)	2,4 (+0,3)	2,5 (+0,1)
	• To what extent are drivers aligned, communicated and understood by all parties?	3,5 (+0,4)	2,2 (-0,1)	2,9 (+0,4)
Change operator and contractor CULTURE	• To what extent do you experience positive change in behaviour related to the guideline recommendations?*	3,2 (+0,1)	3,0 (+0,2)	2,6 (-0,1)
	• 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)?			2,9 (–)

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

(Development from the previous year)

Limits: 2,8 3,2

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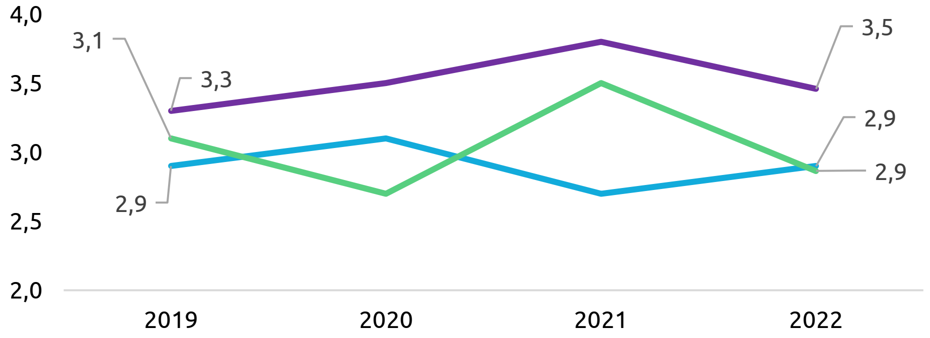
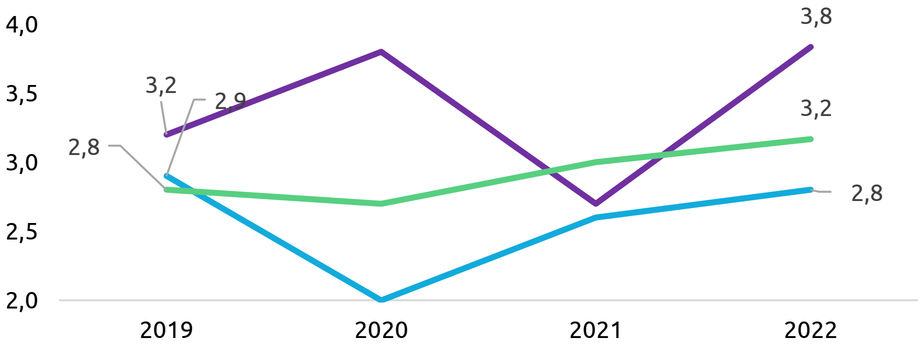
THERE ARE NO CLEAR TRENDS ON GUIDELINE RECOMMENDATION FROM 2019

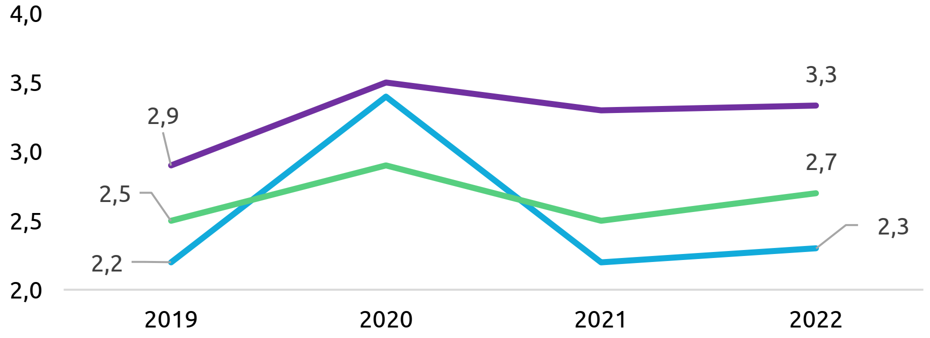
Increase use of industry standard



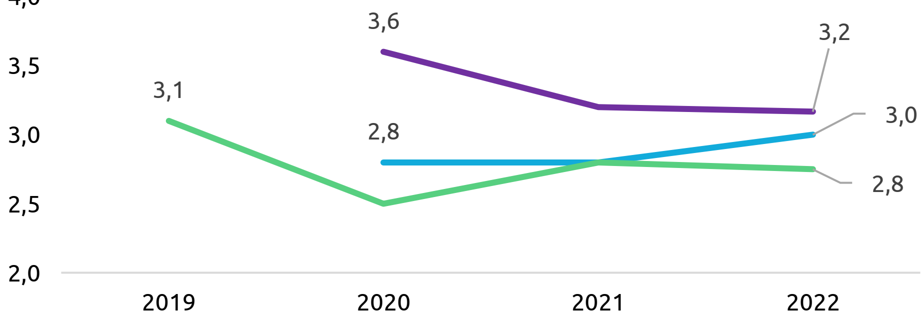
Better and earlier use of supplier expertise



Align drivers across the supply chain



Change operator and contract culture



Operator Contractor Supplier

(Scoring 1-5 where 5 is best)

INTERVIEW GUIDE 2022

Questions related to the Joint industry guideline for Standardised supply chain behaviour

General	• How familiar are you with the industry guideline and checklists? • 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 • How will you normally treat deviation from standard? Who carries "the burden of proof"? • 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?

HOW TO DRIVE IMPLEMENTATION EFFORTS

Feedback from the industry

1. Anchor the guideline recommendation in the **strategy** and implement throughout the whole organisation

2. Involvement and engagement from the **top leaders**

3. Long-term collaboration across players to increase **trust and transparency**

4. Implement guideline recommendations with corresponding checklists in operators' and contractors' **governing documents**

5. Communicate benefits by documenting **success stories** from real life industry examples