



## **UKCS upstream supply chain collaboration survey**

Re-energising collaboration to deliver greater value

2020



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## About this report

### Methodology

The report is based on the results of a confidential electronic survey conducted with industry participants in the UK Continental Shelf (UKCS) from early September to mid-October 2020. The data and analysis of the results are presented in the report anonymously in an aggregated format.

### Demography

The survey was completed by 184 participants. The majority came from operations and engineering/projects functions, followed by logistics, procurement/tendering and sales/business development with a small minority from back office – finance, HR and legal. The majority were senior managers, followed by managers, executives, specialists and board members.

In this publication, references to Deloitte are references to Deloitte LLP, the UK affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited.



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## Welcome to the sixth edition of the UKCS upstream supply chain collaboration review and index.

The oil and gas industry has had an extraordinarily challenging year. In addition to dealing with the direct impact of the COVID-19 pandemic on the workforce, the reduction in demand

for commodities leading to low oil and gas prices has put significant pressure on company financials.

In this difficult environment, the ability to work closely with suppliers and/or customers to support one another is crucial. As the industry looks at the year ahead and assesses new opportunities and challenges, it needs to focus on the right set of collaborative behaviours.

While there is no accepted definition of what collaboration is, the UKCS upstream supply chain collaboration survey provides a unique framework to identify behaviours associated with successful collaboration in an oil and gas context. Our framework helps measure and analyse the change in attitudes over time.

OGUK and Deloitte have continued to work together to produce this year's report. The combination of OGUK's industry engagement and Deloitte's analytics capability ensures that this project provides the industry with fresh, actionable insight.

The report is based on our annual survey, which was conducted from September to mid-October 2020.

This year's survey focuses on topics identified in last year's edition, as well as emerging industry trends. The new themes explore adherence to OGUK's Supply Chain Principles, internal collaboration and energy transition.

We would like to thank OGUK for their continued support, along with survey participants for sharing their views.

We hope you find this year's report insightful and welcome your feedback.

**Graham Hollis**  
Office Senior Partner, Deloitte (Aberdeen)



*"In this difficult environment, the ability to work closely with suppliers and/or customers to support one another is crucial."*



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## Re-energising collaboration

Over the last six years, this survey has sought to understand the key drivers behind collaboration – when, how and why we collaborate and what the benefits are.

This report has consistently shown that collaboration is indeed good for business.

The OGUK Supply Chain Principles, launched in 2018, were built on these insights and seek to incorporate key aspects that would deliver further collaboration to the benefit of companies throughout the sector.

At a time when the supply chain is at its most fragile, the OGUK Supply Chain Principles seek to bolster supply chain resilience and help to utilise suppliers’ experience, innovation and technologies to unlock activity on the UK Continental Shelf (UKCS).

However, this year’s survey reinforces the need for more support for the Supply Chain Principles, from the whole sector.

At the same time, the survey also highlights some excellent examples of partnerships between operators and suppliers, where companies have worked together to address the unprecedented challenges and to unlock value for all.

The survey also highlights disparity in viewpoints between operators and suppliers. There is more to be done to ensure consistent alignment of objectives and outcomes and to continue to build trust and confidence between all parties.

While collaboration may not be a silver bullet, it contributes to strengthening the sector’s resilience and unlocking many future developments. Collaboration and new ways of working will also be crucial to unlocking opportunities resulting from energy transition.

Key to this will be the development and delivery of the North Sea Transition Deal, which will enable us to build on the strength of the oil and gas industry, so that it can play an important role in delivering a green recovery and the net zero agenda.

Successful delivery will support security of energy supply while helping to stimulate activity and new jobs.

Unlocking a more collaborative way of working is key to maximising the potential of the existing supply chain and ensuring its success in the transition to a net zero future.

We have a window of opportunity that we need to seize now – by working together collaboratively today, we will be poised for success tomorrow.

While there is much to be done, we are already in action. Supporting the sustainability of the sector, as it transforms to meet the needs to our new energy future, offers an exciting and rewarding opportunity.

We have an exciting year ahead of us and we look forward to your support.



**Katy Heidenreich**  
Supply Chain & Operations Director, OGUK





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Businesses have been reacting to the challenging operating environment created by COVID-19 in a variety of ways. The Collaboration survey has identified some very positive behaviours both from the operators and suppliers, where flexibility and increased communication have strengthened relationships.

However, the reduction in activity that resulted in cancelled or modified contracts has also led, in some cases, to adversarial commercial behaviours. A strong focus on cost reduction has put further pressure on an already strained supply chain. The tough new market conditions shifted priorities towards protectionism for some and survival for others.

Against this backdrop, the headline figure to assess progress in collaborative relationships, the Industry Collaboration Index, has increased slightly to 7.1 in 2020 from 7.0 in 2019. This improvement is entirely due to the higher scores suppliers received from operators, acknowledging the flexibility and support the supply chain showed during the challenging year.

Although the score for providing financial incentives to collaborate hit a record high in 2020, it still remains the lowest factor in assessing collaborative relationships. As a key factor for successful collaboration, this low score highlights how important it is to find commercial models that allow all parties to benefit from working better together. It is crucial for operators to find new, more collaborative ways of working with suppliers to unlock projects and maximise the potential of the basin, ensuring that the UKCS remains attractive to investors.

The focus on cost reduction continues to drive collaboration and its role has further increased in 2020. This year 30 per cent of respondents, up from 26 per cent last year, said they collaborated to reduce costs.

The role of traditional cost reduction methods – deferring spending on projects, freezing hiring/reducing the temporary workforce and requesting basic unit cost reductions from suppliers – has also increased from last year.

This emphasis on cost reduction can erode trust, reduce goodwill to collaborate as well as limit suppliers' ability to make contributions that would enhance the overall value of ownership of the project. With so much pressure on companies to save costs, the survey data highlighted instances, where behaviours could, at best, be described as cooperative.

As the oil and gas industry and the UK economy gradually recovers from the impact of COVID-19, now is the time to consider how companies can shift from cost reduction to more value-enhancing activities that focus on the total cost of ownership of a project instead of its unit costs. It is time to re-energise how the industry collaborates.





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If efficient delivery continues to be the main value that collaboration creates, businesses need to ensure they achieve it in the most sustainable way. This includes protecting the health of the supply chain and ensuring its sustainability by adhering to OGUK's Supply Chain Principles (Principles). In a new set of questions, the survey explored whether respondents followed the Principles and whether they had any impact. With 27 per cent of suppliers in the survey reporting that their contracts are not, or only rarely cash positive, increasing industry adherence to the Principles must be made a priority to avoid further damage to the supply chain.

However, we also saw some excellent examples of good collaborative behaviours, such as the CAT-C Medivac Helicopter or 'COVID copter', where industry came together to share aviation resources. This example shows how industry can pull together and collaborate in times of adversity.

We also introduced new questions on internal collaboration. Approximately 90 per cent of both supplier and operator respondents said that internal collaboration exists in their

companies and shared that agile, team-based, cross-functional collaboration is the norm within their organisations.

Many noted that collaboration was included in company values and consistently promoted by leadership. This suggests that the main principles and behaviours associated with collaboration are well understood and demonstrated within companies. Collaboration seems to work well in the absence of commercial pressures related to contract and price negotiations.

Energy transition has also been introduced as a new topic in the survey to understand the progress companies are making to support the UK government's net zero emissions target. Three-quarters of operators in the survey say that operational efficiency improvements and carbon-emissions management are the two main areas where suppliers can help them reach their 2035 objectives. Indeed, suppliers already offer a wide range of services in these two areas, with many others being developed for electrification, hydrogen and carbon capture and storage to name just a few.

As opportunities in energy transition arise, the industry needs to be able to build and improve partnerships and collaborative relationships with renewables companies, as well as with businesses from other sectors. Therefore, the industry needs to ensure that the right collaborative behaviours, including those already used in internal working practices, are used to build this gradually expanding market.

*"As opportunities in energy transition arise, the industry needs to be able to build and improve partnerships and collaborative relationships with renewables companies, as well as with businesses from other sectors."*







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# COVID-19 impact on collaboration





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A challenging year

The UK oil and gas sector experienced unprecedented disruption in 2020. Measures to restrict the spread of COVID-19 caused a sharp fall in global economic output and activity, which in turn reduced demand for energy and severely depressed oil and gas prices. In addition, businesses have had to take practical, often disruptive, steps to protect their workforce and maintain operations, while at the same time adjust work plans regarding new investment and asset maintenance.

In spite of the challenges, 2020 UKCS production is likely to be sustained at the 2019 level of nearly 1.7 million barrels of oil per day. [OGUK's Economic Report 2020](#) shows there is a clear pathway for the oil and gas sector to push a green recovery forward, create new jobs and sustain the industry.

However, volatile and low oil and gas prices have considerably reduced activity levels in all areas, in particular for exploration, appraisal and development, and put the economic viability of some operations into question. The economic impact of the pandemic on company performances has been severe.

As activity levels dropped and work schedules were rationalised, many contracts were cancelled, delayed or renegotiated. Protecting cash flow has become a priority that has in turn tested company behaviours, resilience and relationships with suppliers and customers alike. The extraordinary pressure on the supply chain further exposed its fragility.

Against this background, we wanted to explore the impact of the pandemic on relationships between partners already collaborating.

'Positively' mixed response

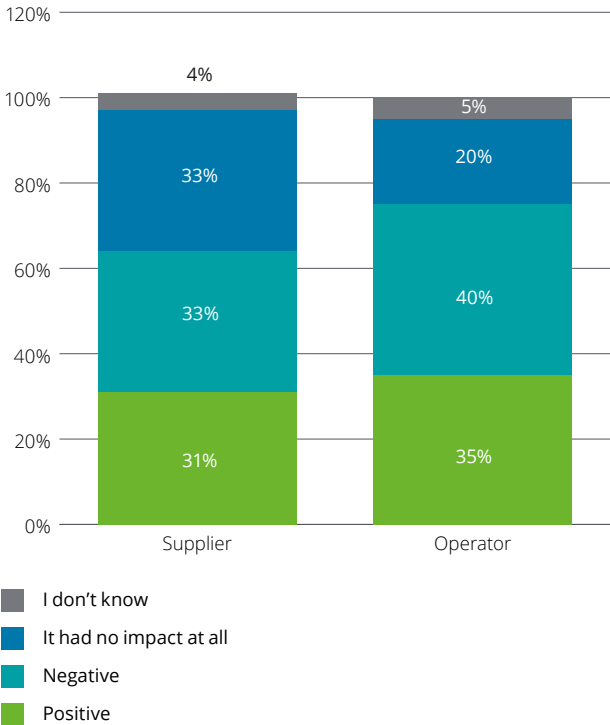
Feedback provided by respondents revealed a wide range of views – some positive and some negative.

As Figure 1 shows, the results for suppliers are roughly split among positive, no impact and negative. From an operator perspective, the impact was slightly more positive, with three-quarters of operators believing that the challenging year either brought them closer to their suppliers or had no impact on their relationships.

Discussions with both operators and suppliers revealed a broad spectrum of behaviours during the pandemic. On the positive end of the scale, the feedback highlighted extraordinary flexibility on the part of both operators and suppliers in the face of adversity. Some respondents believed that the challenges strengthened their relationships with their suppliers or customers.

“Feedback highlighted extraordinary flexibility on the part of both operators and suppliers.”

Figure 1. The impact of COVID-19 on organisations' relationships with partner/s in collaboration  
% of respondents



Suppliers: 2020 n = 129 respondents  
Operators: 2020 n = 55 respondents  
Source: Deloitte analysis



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**Industry resilience belies an increasingly fragile supply chain**

Most operators interviewed said due to the pandemic they could not show the same flexibility and willingness to support all suppliers. For example, many projects stopped, work schedules were rationalised and focus shifted to protecting and supporting key suppliers. Such adjustments were necessary to address the challenges of the business environment.

In many cases contracts were terminated or modified to reflect the decline in activity. As drilling reduced and efforts were made to keep travel to platforms at a minimum, suppliers in the Wells and Logistics categories in particular felt the strain.

We saw some examples of operators asking suppliers for an immediate price reduction, slashing contracts and rates to an unsustainable level. Some suppliers accepted the lower rates and lost money on contracts to avoid the risk of losing other work with the operator.

In addition to causing financial harm to suppliers, such situations also damaged long-standing relationships and reduced trust between operators and suppliers.

We were also told about terms and conditions being made more onerous and risk being excessively transferred to suppliers.

**Positive examples**

Despite the challenges, COVID-19 resulted in some positive behaviours. There was more dialogue, listening and appreciating the difficulties that both sides were facing. There was also more willingness to support each other through the challenging times. COVID-19 brought a sense of community to collaborative partnerships.

**‘COVID-19 care package’**

One example of this support is an operator’s ‘COVID-19 care package’, which included financial support for contractors who were required to isolate, shield or tested positive for the virus. The package eliminated the concern of not getting paid as a result of COVID-19 and prevented the spread of the virus on to the platforms.

**‘COVID copter’**

Other examples include some operators working closely with a logistics company that provided dedicated helicopters for evacuating personnel suspected of having COVID-19. The helicopter provider received an enhanced hourly rate, while the costs, including medics on board and on standby, and modifications to make the aircraft safe for transporting suspect coronavirus cases, were split between the operators. The ‘COVID copter’ exemplifies how industry can pull together and collaborate in times of adversity.







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**What is the Collaboration Index?**

The Collaboration Index allows respondents to confidentially rate their partners as collaborators.

We then produce aggregated figures based on the ratings and construct several Collaboration Indices. These are sets of aggregated figures used to assess how collaboration is progressing in the UKCS.

The aggregated industry, operator and supplier scores are presented in Figures 2, 3 and 4.

“The Index matters because organisations that have a highly collaborative business culture and behaviours tend to complete projects below budget and ahead of schedule.”

**How do we construct the Indices?**

Respondents were asked to select companies they had worked with in the previous 12 months from a list of 20 operators or 24 suppliers. They were then presented with 12 positive statements, or factors, across three main domains (Openness, Incentives and Business processes) and were asked to score their selected partners against each factor on a scale of 1 to 10. Operators rated suppliers and suppliers rated operators.

The ratings are then aggregated to produce a numerical score, or a Company Index number, for each of the 44 companies – the higher the score, the better the rating of a company as a collaborator by its partners. These Index scores form the Operators and Suppliers League Tables.

While we publish the aggregated Industry, Operator and Supplier scores, companies receive their individual Company Index score and their league table position at confidential feedback sessions at their request. We do not reveal the scores of other participants at these sessions.

**Why do the Operator and Supplier League tables matter?**

The Company Index measures supply chain collaboration over time and provides an annual snapshot of how well companies are seen to be doing by their partners. The Indices highlight areas of under-performance, best practices and help companies assess their own position against their peers. This in turn can help organisations identify areas where closer collaboration with their suppliers/customers can help improve performance.

The Index matters because organisations that have a highly collaborative business culture and behaviours tend to complete projects below budget and ahead of schedule.

**Fewer operator responses and record supplier participation**

Organisational mergers, internal restructuring and business challenges meant that the number of survey submissions dropped. In addition, the survey was open for six instead of the usual ten weeks. We received 184 complete responses in 2020 compared with 206 in 2019.

184 participants provided 1,302 pieces of individual feedback. While this represents a drop of approximately six per cent from last year, the results are still robust.

Another noteworthy change is the drop by more than a third in operator responses, while supplier responses reached a record high. This year 70 per cent of responses in the survey came from suppliers and 30 per cent from operators. For this reason, we show the operator and supplier results separately in most graphs throughout the report.





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### Collaboration Index registered no major shock

Despite the challenges the sector has been facing since the spring of 2020, the industry-wide Index score did not decline significantly year on year. Overall, the Index has continued to plateau over the last four years and increased marginally to 7.1 in 2020 from 7.0 in 2019.

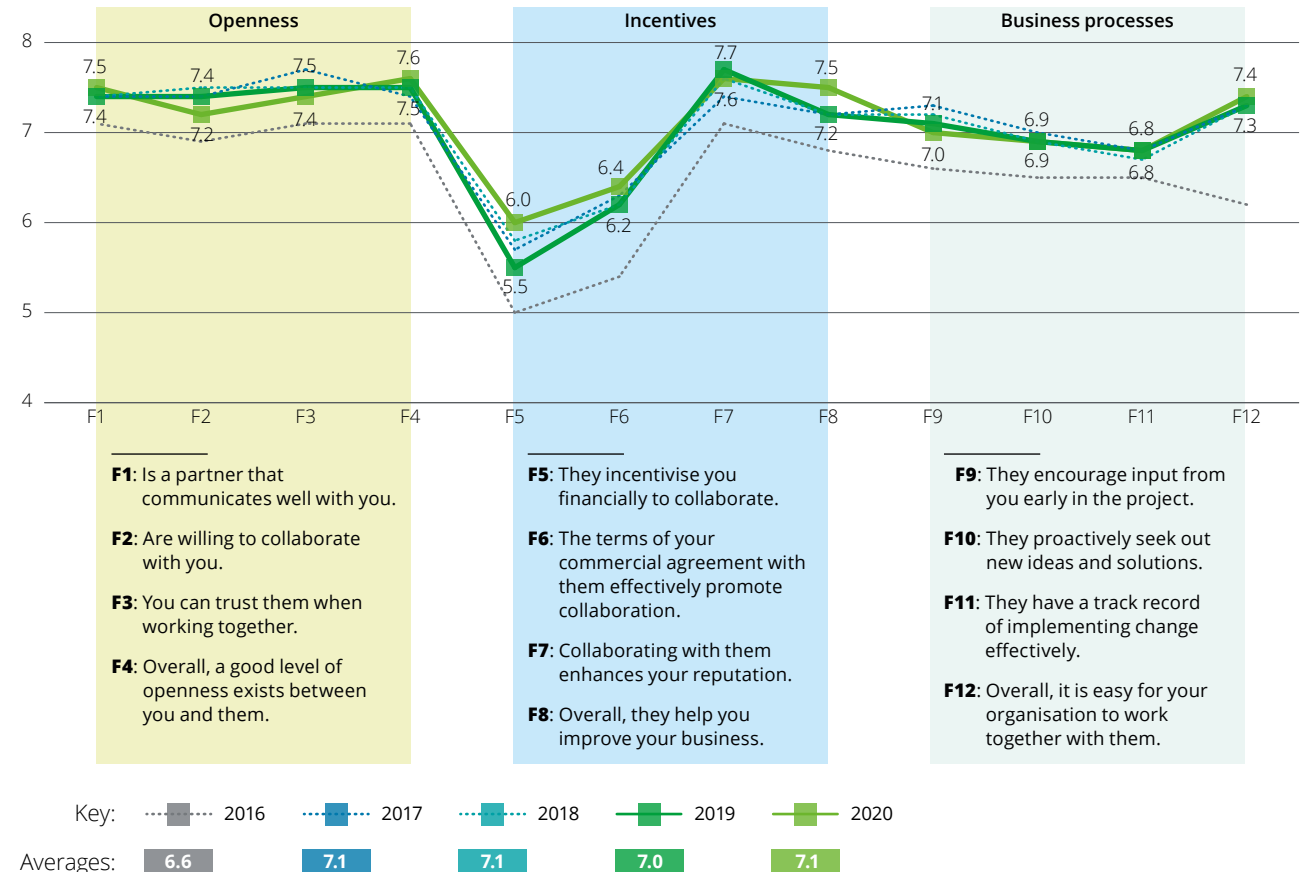
### ‘Financial incentives’ score remains below others

The breakdown of the overall score shows an improvement in most incentives factors in 2020 (see Figure 2). The ‘Financial incentives’ factor (F5) showed the largest increase – to 6.0 in 2020 from 5.5 in 2019. This is also the highest score in the past six years. However, F5 has consistently been the lowest scoring factor since the survey started.

Several industry initiatives, including OGUK’s Efficiency Task Force, the Wells Task Force and more recently the Supply Chain & Export Task Force, have been focusing on improving commercial behaviours and encouraging partners to find better ways to share the benefits of collaborative relationships. However, the lower score underlines that finding the right commercial model is still the most contentious aspect of collaborative relationships and one that industry needs to focus on.

“Financial incentives has consistently been the lowest scoring factor.”

Figure 2. Industry-wide Collaboration Index: higher incentives scores driving marginal increase



Total number of feedback: 2016 n = 464; 2017 n = 584; 2018 n = 937; 2019 n = 1,378; 2020 n = 1,302  
Source: Deloitte analysis



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A further breakdown of the results by company type highlights the drivers behind the improved incentives scores.

**Suppliers recognised for their positive response to business adjustments**

The Supplier Collaboration Index score – the aggregate of scores suppliers received from operators – increased to a record 7.3 in 2020 from 7.0 in 2019. This higher score is behind the slight improvement in the overall results in Figure 2.

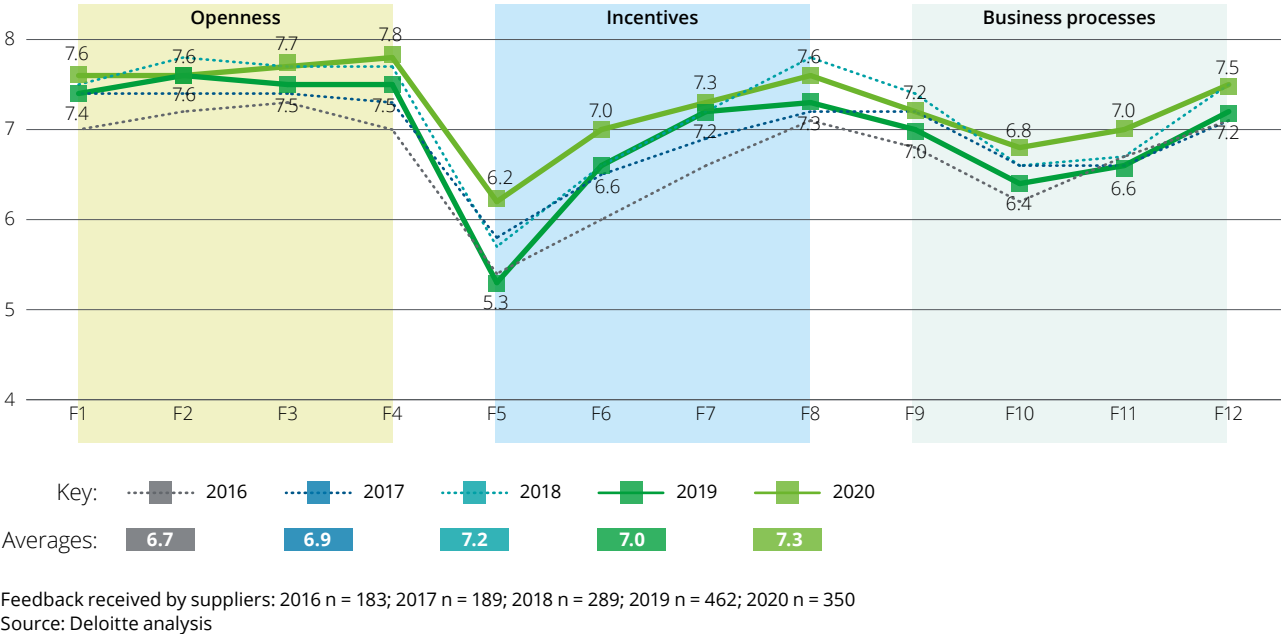
While nearly all factors were higher this year, the ‘Financial incentive’ factor (F5) is the most improved of all supplier scores and the highest that it has been since the survey started six years ago, as Figure 3 shows.

**Collaboration or cooperation?**

A number of the operators we interviewed believe the improved supplier scores show that operators acknowledge the flexibility and support suppliers showed during these challenging times. The improved Business processes scores also suggest that suppliers listened to operator requests about innovation and flexibility/ease of working.

However, some also suggested the graph may simply show that some operators are acknowledging suppliers for reducing their prices, despite knowing that contractors were struggling to cover costs. While there are examples of good practices where operators have successfully collaborated with suppliers to control costs in a way which allowed activity to continue, the results reinforce the need for more support for the spirit and the letter of the Supply Chain Principles.

Figure 3. Supplier Collaboration Index: record average score



“Operators acknowledge the flexibility and support suppliers showed during these challenging times.”



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**Operator Collaboration Index score sustained with some underlying trends**

At 7.1, the Operator Collaboration Index score remained the same as last year. However, the breakdown of the Operator Index score by factor highlights some trends worth noting (see Figure 4).

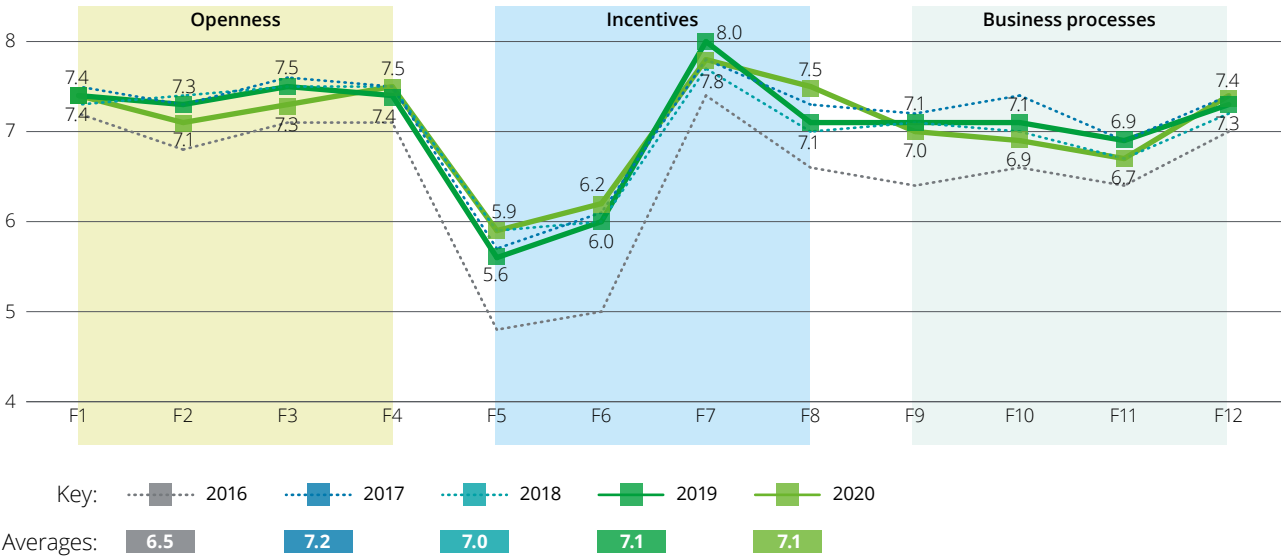
The first trend is an increase in the ‘Financial incentives’ (F5) and ‘Overall they help you improve your business’ (F8) factors.

Several operators indicated that they did not retender contracts to drive costs down and made sure they kept to 30-day payment terms to help suppliers – especially small and mid-sized companies – avoid cash flow problems.

Suppliers also acknowledged more flexibility from a number of operators. However, they also said they experienced adversarial and cost-, rather than value-, focused behaviours. In addition, some suppliers were frustrated that operators did not consider alternative offers in tenders, as per Supply Chain Principle 7. Postponement and cancellations may be behind the slight decrease in the Openness factors around ‘Willingness to collaborate’ (F2) and ‘Trust’ (F3).

While operators received slightly lower scores for proactivity to ‘Seek out new ideas and solutions’ (F10) this year, it is crucial that operators continue working with suppliers to unlock projects.

Figure 4. Operator Collaboration Index: no overall improvement, but some underlying trends



Feedback received by operators: 2016 n = 281; 2017 n = 395; 2018 n = 648; 2019 n = 916; 2020 n = 952  
Source: Deloitte analysis

“Several operators indicated that they did not re-tender contracts to drive down costs and made sure they kept to 30-day payment terms to help suppliers avoid cash flow problems.”



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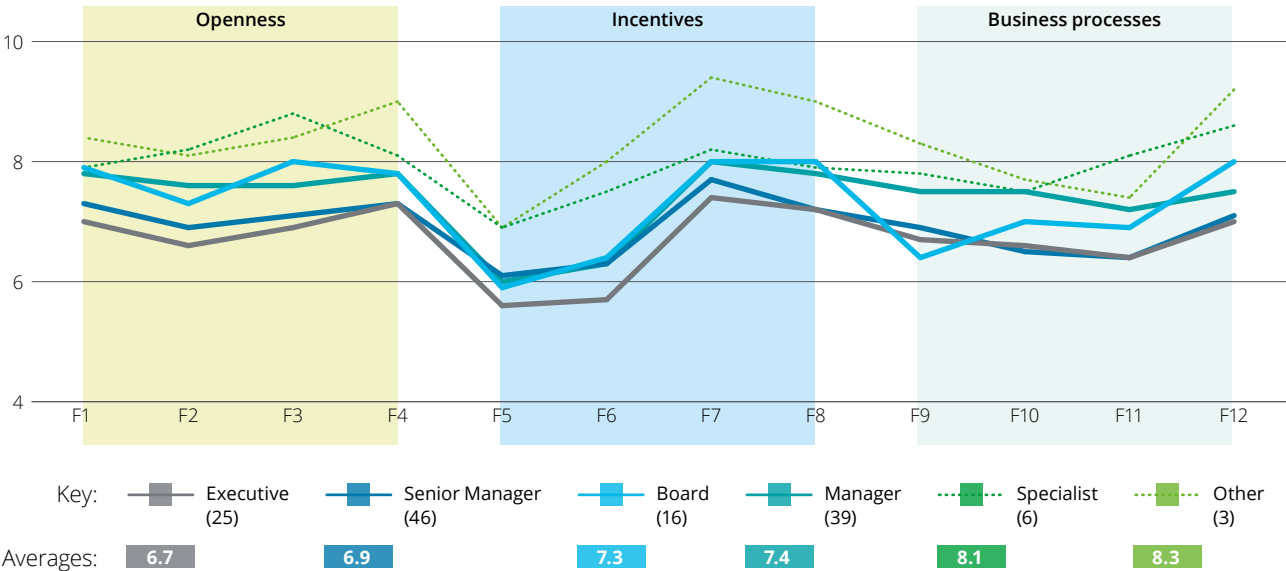
**Low scores from supplier executives and senior managers**

For suppliers, scores provided by senior management were visibly lower this year compared with those of board members, managers, specialists and others (see Figure 5).

Several factors could be responsible for these results. Executives and senior managers have come under tremendous pressure this year to protect jobs and the business. They have a responsibility for the company or their business unit both from an operational and commercial perspective. Typically, they are also in charge of cash flow and would be involved in often difficult commercial conversations with customers.

Collaboration may be viewed differently by board members or more junior members of staff, who may be slightly removed from the business and may not be exposed to the same pressures as senior management. As such, collaboration can work well on a project or functional level between engineering teams focused on getting the work done. Any problems that arise would be escalated to senior managers or executives, who may form a different view of the relationships based on their experiences.

Figure 5. Lowest scores from supplier executives and senior managers



Feedback received by operators: 2016 n = 281; 2017 n = 395; 2018 n = 648; 2019 n = 916; 2020 n = 952  
Source: Deloitte analysis

“Executives and senior managers have come under tremendous pressure this year to protect jobs and the business.”



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Time to shift focus from cost to value

Value is all too often confused with the financial cost of a project or contract, with the emphasis placed on the cost of individual line items. Less attention is paid to the total cost of ownership or other value-generating aspects. Indeed, the emphasis on unit costs can erode trust and reduce goodwill to collaborate, as well as supplier’s ability to make contributions that would enhance the overall value of ownership of the project.

Greater focus on cost reduction and risk aversion

Cost reduction (or more broadly, efficiency improvement) has been the main value driver for collaboration since the survey started six years ago and the trend continued in 2020.

A year ago, we noted a shift from cost reduction to sharing knowledge and learning. The industry environment and expectations for 2020 were vastly different then, with many in the industry anticipating a buoyant market, where discussions about new, innovative ideas would be driving a competitive edge. The reality of 2020 is that the tough new market conditions shifted priorities towards protectionism for some and survival for others.

In the new environment the industry focused sharply on reducing costs and became more risk averse.

The proportion of those collaborating to save costs increased to 30 per cent, according to Figure 6, followed by 24 per cent of those who focused on reducing risk, pushing sharing knowledge into third place.

Increased risk aversion in an industry that ‘rushes to be second’ in adopting new technologies makes innovation harder, especially for small companies that are already finding it difficult in the current environment to meet prospective clients face to face.

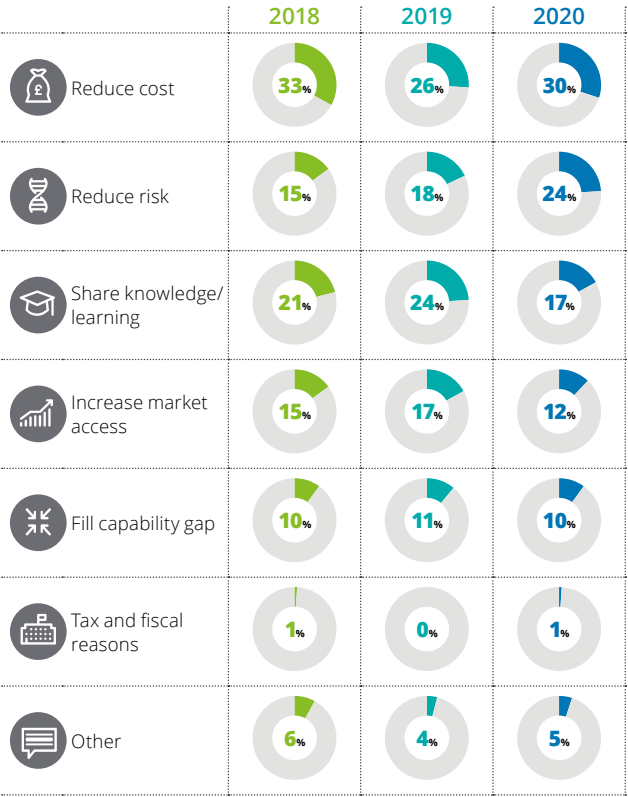
A breakdown of the results shows that cost reduction is paramount for both operators and suppliers, with 33 per cent of operators and 29 per cent of suppliers picking cost reduction as the principal reason to collaborate. This is followed by 27 per cent of operators and 22 per cent of suppliers selecting risk reduction as the main reason they work with their partners.

OGUK’s Recovery Plan has been encouraging industry to do business in a sustainable way to protect the supply chain. This should include finding innovative ways of working and new business models that deliver value for both sides – ensuring that industry has the skills and resources needed when activity rebounds.

“Cost reduction has been the main value driver for collaboration since the survey started.”

Figure 6. Cost reduction is a stronger driver of collaboration than last year

% of all responses (multiple choice)



2018 n = 343 responses; 2019 n = 451 responses; 2020 n = 345 responses  
Source: Deloitte analysis



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More traditional cost reduction for operators

Operators and suppliers have had to make major adjustments to survive this year’s unprecedented challenges. While the sector has been successful in making adjustments, the economic impact of the pandemic on companies, particularly on the supply chain, has been severe. The potential for further supply chain job losses remain a concern.

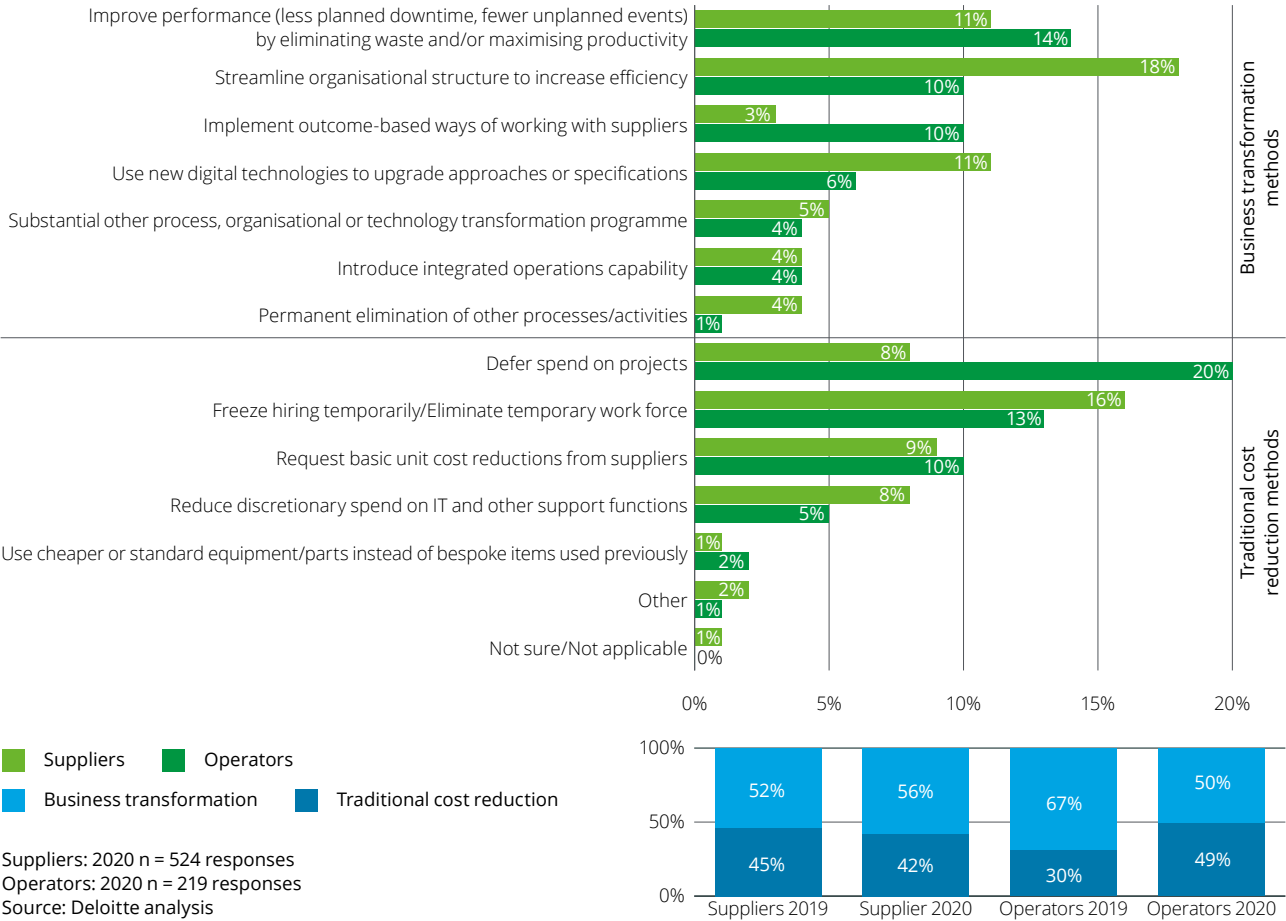
According to the survey, operators adopted considerably more traditional cost-reduction methods than suppliers. In 2020, 49 per cent of operators said they used such techniques compared with 30 per cent last year (see Figure 7). Operators also used fewer business transformation methods than last year. Such methods require more complex strategy and planning, and also take longer to execute.

In contrast, more suppliers than operators embraced business transformation, albeit by a relatively small margin. Streamlining organisational structures (primarily as a result of redundancies), improving performance by eliminating wasteful business processes and using more digital technologies accounted for the majority of techniques suppliers used.

For operators, deferring spending was the main source of cost reduction during the year, while other traditional methods included freezing hiring. Among the business transformation methods used, improving performance came out on top.

Figure 7. Cost reduction techniques in the past 12 months

% of responses by company type (multiple choice)





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**More business transformation next year**  
Looking to the year ahead, both operators and suppliers plan to focus more on business transformation. While such methods require more planning, they should put the companies on a more sustainable footing than traditional techniques.

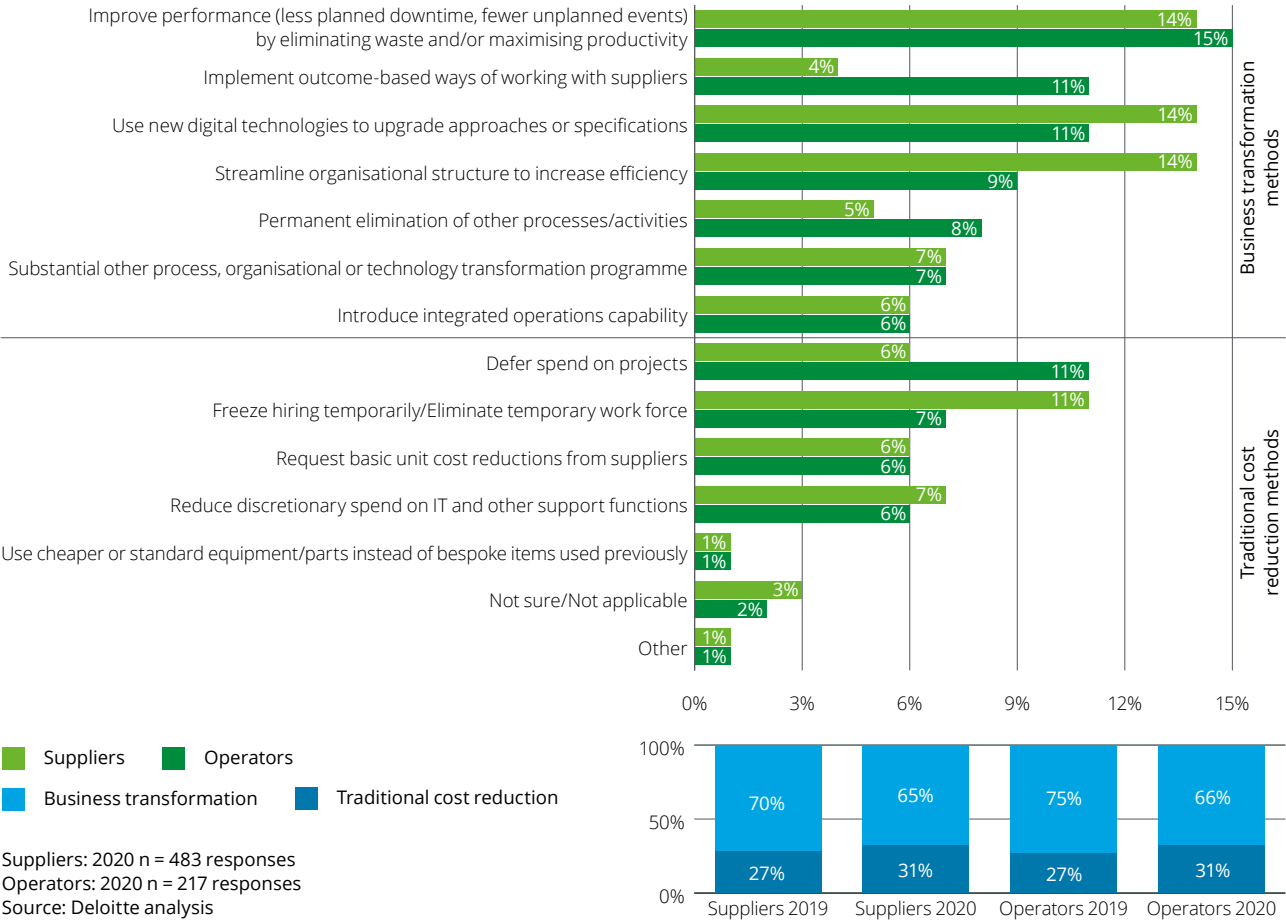
Figure 8 reveals that suppliers plan to continue to improve performance by reducing internal waste and streamlining their organisational structures, which would likely be supported by further hiring freezes. Digital technologies are also expected to play a slightly more important role.

For operators, improving performance by eliminating waste and/or maximising productivity and using outcome-based ways of working with suppliers are expected to be the main drivers, followed by continuing to defer spending on projects.

As companies prepare for 2021, they should be considering how to shift their focus from cost reduction to more value-enhancing activities. At the same time, companies should explore better ways of sharing the benefits of collaboration with suppliers. This is reflected in Supply Chain Principles 1 and 6.

“Companies should focus on value-enhancing activities.”

**Figure 8. Cost reduction techniques planned in the next 12 months**  
% of responses by company type (multiple choice)





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**Collaborative success rates hit record high**

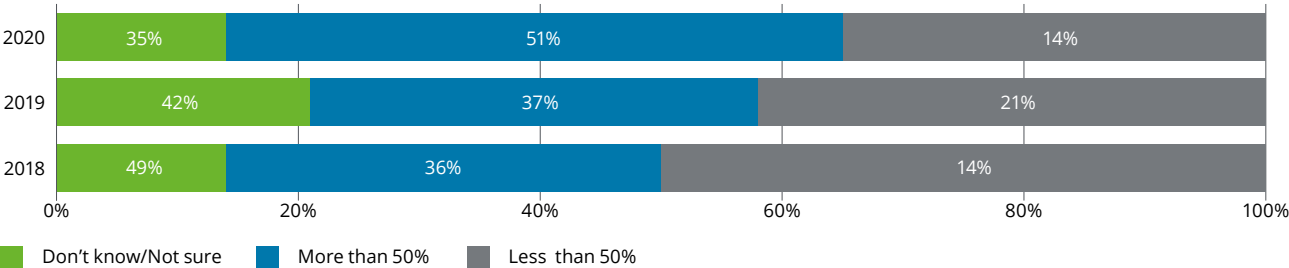
The slight improvement in the Industry Collaboration Index figure, underpinned by higher supplier scores (see Figures 2 and 3), is also reflected elsewhere in the survey. Collaboration success rates hit a record high in 2020: over 50 per cent of survey respondents reported that more than half of their efforts were successful, according to Figure 9. This is also the first time in the history of the survey that the proportion of ‘successful’ efforts was higher than ‘unsuccessful’ ones.

A breakdown of the results in Figure 10 shows that both operators and suppliers report improvement, although there is still a wide gap between viewpoints. This suggests that operators may continue to retain a larger portion of the benefits than suppliers.

Results from suppliers employing between 2,500 and 10,000 people are the least positive, with 56 per cent saying that less than half of their efforts were ‘successful’. In particular, the companies in the Wells and Support and Services supply chain categories are most at risk, with many already taking bankruptcy protection measures.

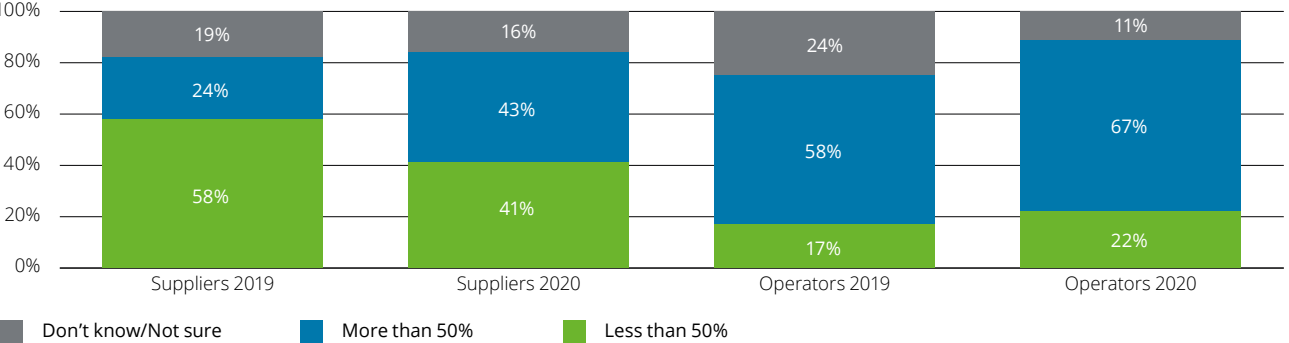
“Collaboration success rates hit a record high in 2020.”

**Figure 9. Record high success rates for collaborative efforts**  
% of all respondents



2018 n = 166 respondents; 2019 n = 226 respondents; 2020 n = 184 respondents  
Source: Deloitte analysis

**Figure 10. Improved success rates for both suppliers and operators – breakdown of Figure 9.**  
% of all respondents by company type



Suppliers 2019 n = 140 respondents; 2020 n = 129 respondents;  
Operators 2019 n = 86 respondents, 2020 n = 55 respondents  
Source: Deloitte analysis



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Trust and ensuring projects are beneficial for all parties continue to drive collaboration

Culture and behaviours remain the top reasons behind successful collaborative efforts, with a number of respondents indicating that personal initiatives and openness, embodied in the Supply Chain Principles, created the best environment for collaboration. For others, sharing data with a view to welcoming supplier ideas and then creating appropriate Key Performance Indicators (KPIs) for the right outcomes fosters collaboration.

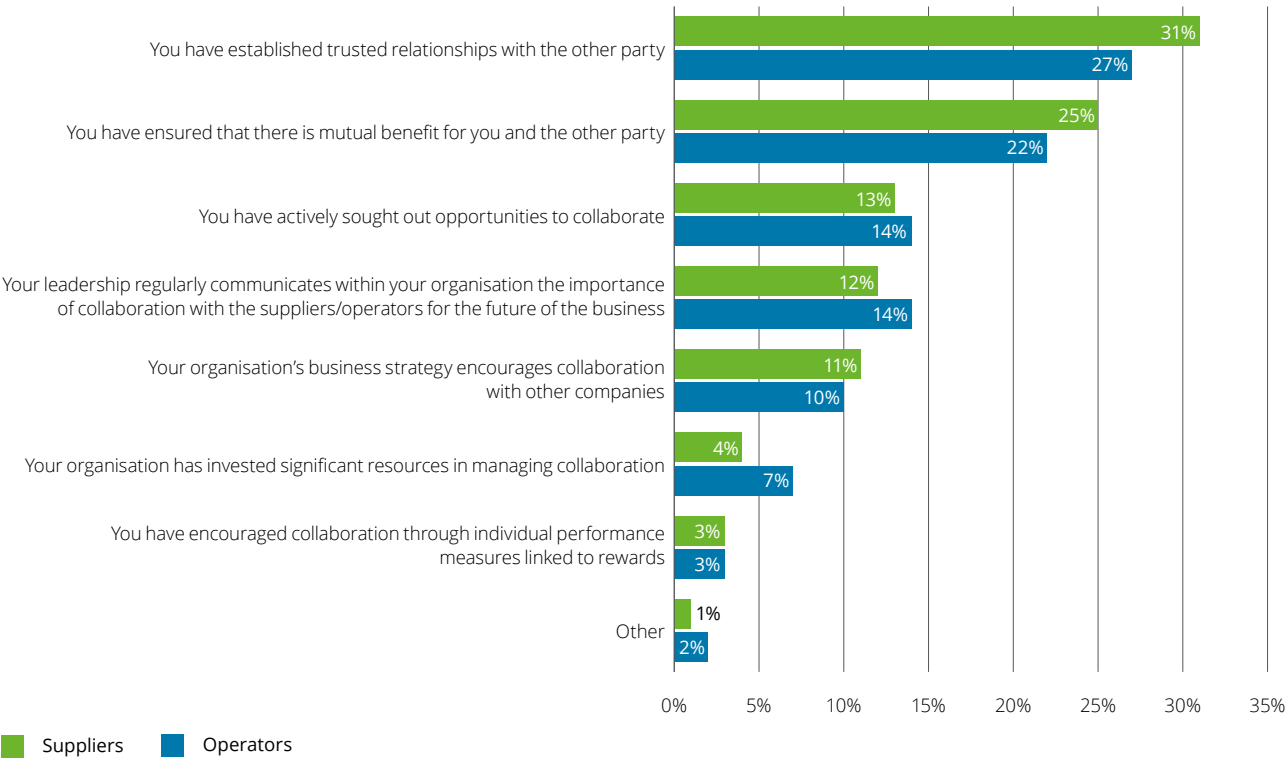
Trust has been the main success factor since the start of the survey. Figure 11 shows that having a relationship based on trust accounts for a slightly higher proportion of successful outcomes for suppliers than for operators. In the Operator Collaboration Index (see Figure 4) the factor for ‘Trusting partners’ (F3) declined somewhat in 2020. This suggests that a lower proportion of suppliers felt they could trust their partners in this challenging environment.

Trust takes a long time to build, but erodes very quickly. This year we heard of cases where the lack of communication about contract cancellations, as well as contracts being put out for tender to drive prices down had a negative impact on some long-term relationships. Some operators commented that the pandemic had limited income opportunities for suppliers, which drove them to maximise their return on open contracts which is most likely a side effect of these cost control measures.

Ensuring that everyone benefits from the relationship is the second most important factor for achieving successful collaboration.

Figure 11. Trust and ensuring mutual benefit for both sides continues to be the most important factor in achieving successful collaboration

% of all responses (multiple choice)



Suppliers: 2020 n = 341 responses  
Operators: 2020 n = 147 responses  
Source: Deloitte analysis





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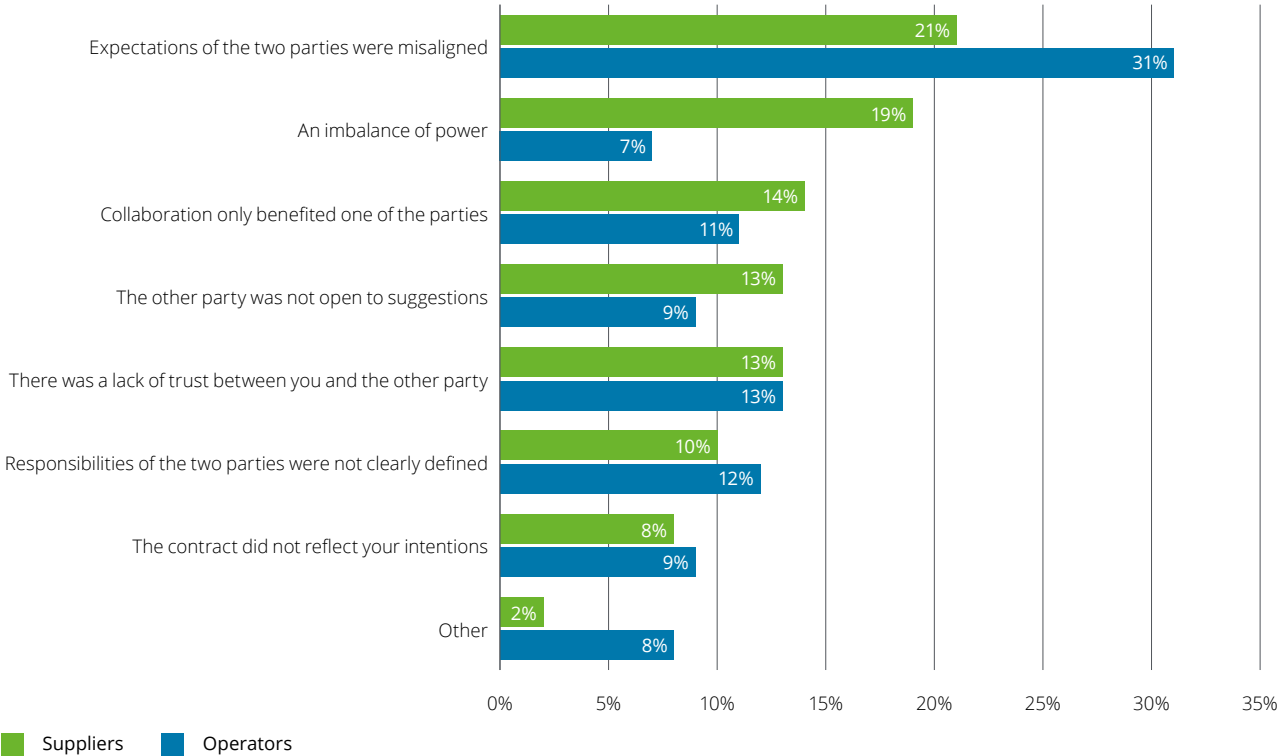
Misaligned expectations are the lead cause of collaborative failures

Misalignment of expectations between the operators and suppliers was the main reason for collaborative failures in the first five editions of the survey, and 2020 is no exception in this regard (see Figure 12). This is especially the case for operators. There could be a number of reasons for this, including the failure to align objectives early in a project, difficulties in the negotiating process or the complexity of contracts. In addition, lack of communication and information flow, as well as the lack of mechanisms to prevent or resolve disagreements and disputes quickly and efficiently, could also be contributing factors.

For suppliers, an imbalance in power has remained in second place. While a clear link could not be found between the size of a company and its response, several suppliers associated the contract environment with ‘command and control’ relationships that do not easily lend themselves to collaboration.

“Misalignment of expectations was the main reason for collaborative failures.”

Figure 12. The lack of success in collaborative relationships is due to misaligned expectations  
% of all responses (multiple choice)



Suppliers: 2020 n = 311 responses  
Operators: 2020 n = 113 responses  
Source: Deloitte analysis



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# Supply Chain Principles – Key to recovery





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If efficiency and improving performance are the main value drivers for collaborative relationships, the oil and gas industry needs to ensure they are achieved in a sustainable way. This includes protecting the health of the supply chain and ensuring its longevity. To this end, demonstrating collaborative behaviours by adhering to OGUK’s Supply Chain Principles (Principles) could be the key to recovery.

**Sporadic adherence to the Supply Chain Principles**

This year, we included several questions in the survey to measure the uptake of the Principles in the industry. We focused on Principles 1, 2, 3, 5 and 6 following feedback from a focus group of operators, suppliers and small and medium-size enterprises (SMEs) who agreed that they were the most relevant.

Survey responses, as well as anecdotal evidence from follow-up conversations with industry participants reflected widely diverging views – ranging from adherence to the Principles to complete disregard of them. This broad spectrum of views suggests that there is ample room for improvement in terms of take-up of the Principles.

The need for improvement has been corroborated through discussions with companies and OGUK board members, who have agreed on the following:

- A call to action to drive support for the Principles, with a particular focus on Principles 1, 2 and 6
- Use the data to explore how we can drive support and enhance our collaborative culture

**Supply Chain Principle 1 – some evidence for excessive risk transference with inadequate compensation**

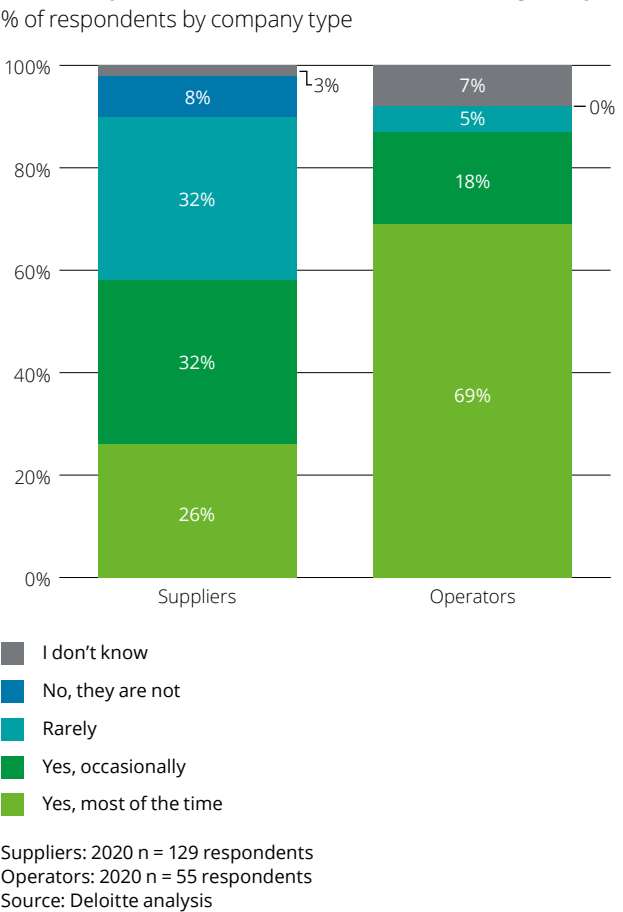
*“Risk and costs should be borne appropriately, be proportional to the work scope and not be forced on anyone; opportunity or good performance should benefit everyone, and performance-based contractual rewards should be investigated.”*

Figure 13 highlights that there is a considerable gap between how suppliers and operators view contracts. A much larger proportion of operators than suppliers thought that contracts realistically reflect risk-reward for the contracting entity.

In discussions, suppliers argued that a small number of operators showed best practice and shared risks and rewards appropriately. However, a number of survey participants noted that tenders and contractual terms and conditions (T&C) became more onerous this year. An operator, for example, changed T&Cs midway through a bid, while another awarded a contract then renegotiated the terms.

“There is a considerable gap between how suppliers and operators view contracts.”

**Figure 13. Are contracts balanced and fair? That is, do they realistically reflect risk-reward for the contracting entity?**





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Suppliers also noticed an increasing shift in the transfer of risk, with some saying that operators “expect contractors to take on the majority of risk” without the corresponding reward. One supplier mentioned “excessive risk transference under the guise of collaboration”, while another said that “significant administration is required to satisfy delivery process. [This meant] additional responsibility for the contractor and risk for little or no incremental award.” One operator suggested that the two sides may not fully understand or appreciate the risks that a supplier or customer is facing, therefore more dialogue about risk factors should be encouraged.

Additional comments referred to long-term contracts being cancelled with no explanation, or renegotiated to drive down costs. According to one supplier: “you win, then they negotiate the price down with no scope change”. Initiatives such as the Culture and Behaviours Task Force and the Efficiency Task Force, established following the 2015 oil price decline, resulted in improved industry behaviours – yet in 2020 the same poor behaviours of 2015 were exhibited.

**Supply Chain Principle 2 – more than a quarter of contracts cash-negative**  
“Contractual terms and conditions (length of contract and work scope) will seek to utilise industry standard contracts when appropriate and all parties will commit to mutuality of payment terms (including ‘mutual SC payment terms’). These should reflect that the supplier has to invest for the future of the UK and make an adequate return on its investment in innovation and new technology.”

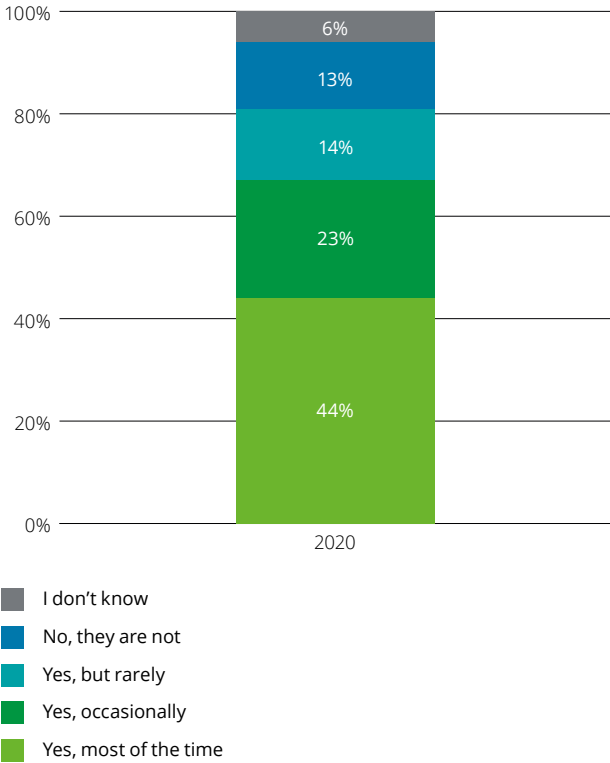
A quarter of the 128 suppliers in the survey reported that their contracts were not or only rarely cash positive (see Figure 14). Another 23 per cent indicated that their contracts were occasionally cash positive. Responses from second tier suppliers, employing between 2,500 and 10,000 people, gives particular cause for concern – 40 per cent of these respondents said that their contracts were not, or only rarely, cash positive.

This data suggests that many suppliers are struggling to stay in business over the mid to long term.

Industry initiatives over the past year have focused on timely payment of invoices being crucial for the survival of many suppliers. This has also been identified by the Supply Chain & Exports Task Force, which is championing an initiative to improve payment performance to support supplier cash positions – this is being supported by OGUK. A number of operators indicated that they adhere to the shorter payment terms, especially for small and medium-sized contractors.

“More dialogue about risk factors should be encouraged.”

**Figure 14. Are your contracts being paid on a basis that they have a positive impact on your cash flow?**  
% of suppliers



Suppliers: 2020 n = 128 respondents  
Source: Deloitte analysis



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Suppliers in fragile financial positions are unlikely to have the funds needed for investment in innovation and to make a return on such investment.

When operators were asked how they incentivised their suppliers to innovate, more than half said they had incentive mechanisms built into contracts (see Figure 15). However, nearly a quarter indicated that they did not have such incentives in place.

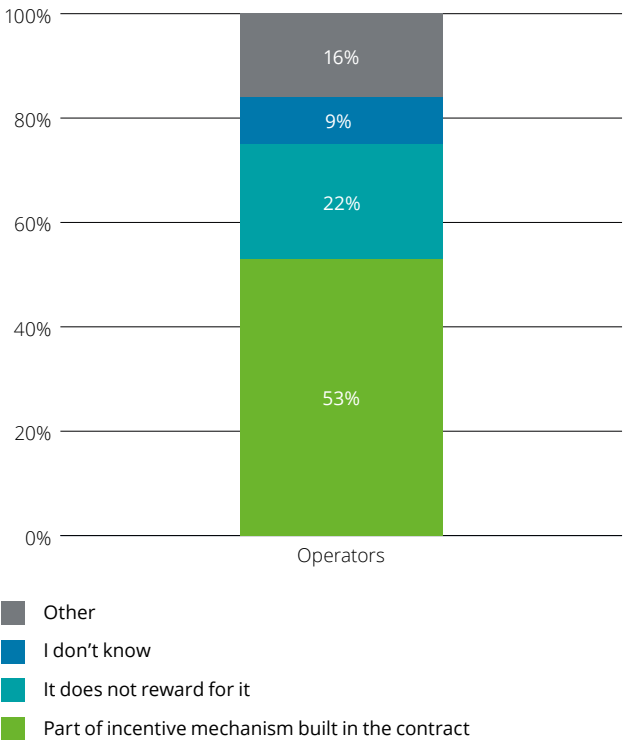
Suppliers expressed a wide range of views on how they were incentivised to innovate. At the positive end of the scale there were financial and non-financial KPI mechanisms, which were mainly focused on continuous improvement. Examples included wells bonuses or contract extensions.

Suppliers also commented that there was a small group of operators who “look for innovative ideas to assist them in operations and [are] willing to pay a reasonable price for valued service”, and are “willing to look at innovative commercial models and allow the supply chain to earn a bonus for achieved goals and KPIs”.

However, most suppliers indicated that they were not incentivised to innovate, yet innovation was often an expectation. One respondent commented that “the balance on providing new innovations is usually loaded in the operator’s favour, i.e. if we make savings they keep the benefit”.

Figure 15. How does your company reward suppliers for innovation?

% of operators



Operators: 2020 n = 55 respondents  
Source: Deloitte analysis



Another supplier revealed that operators encouraged them in the past to include innovative ideas in their tenders, only to see those ideas being divulged to other suppliers during the tender process and then asked if they could provide the same solution at a lower price. However sporadic this practice was, it did discourage investment and effort in innovation and damaged trust between the operator and supplier.

These comments are of particular concern because supplier investment in innovation, notably by SMEs, is not only crucial for improving efficiency in the oil and gas sector now, but also for supporting the industry through energy transition in the future. OGUK has created an SME Forum specifically to support this community.





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**Supply Chain Principle 5 – room for improvement on tendering processes**

*“Purchasers shall endeavour to optimise their Tendering and Audit requirements to ensure Supplier’s resources, time and costs are not unnecessarily impacted or wasted.”*

Onerous tendering processes were identified by both operators and suppliers as a key barrier to collaboration in last year’s survey.

In this year’s survey, 40 per cent of operators thought that their company’s tendering processes drive efficiency across the whole process compared with 15 per cent who thought the opposite, with 40 per cent believing that processes could improve (see Figure 16).

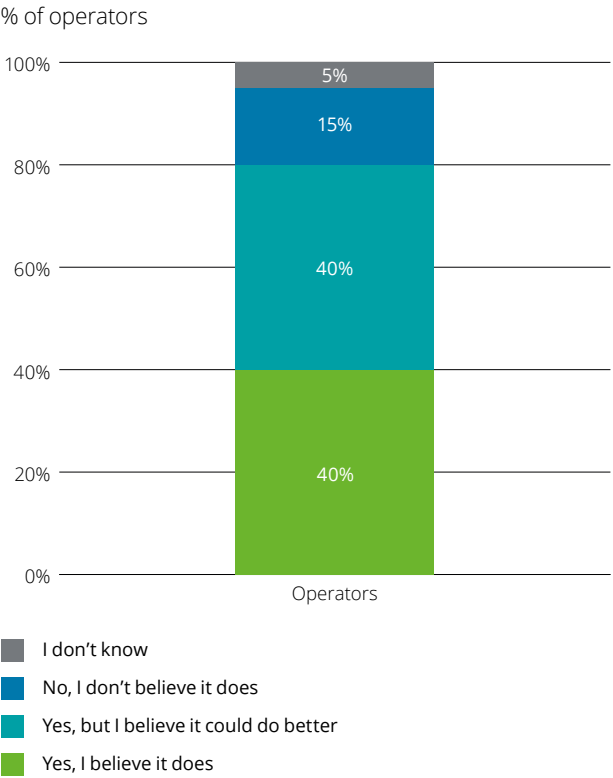
According to a supplier, “tenders are too late [in the process] to collaborate, we need to get to a stage where we remove the need for tenders and work together to determine the best technical solution and then ‘commercials’ fall into place”.

**Supply Chain Principle 6 – large volume of anecdotal evidence for focusing on unit rates rather than on value added**

*“Tender processes and evaluation should be based on value added in addition to unit rates and be flexible to evaluate alternative offers as part of the bidding process.”*

In addition to the tendering process, significant improvement is also needed in evaluating them.

**Figure 16. Does your company’s tendering process drive efficiency across the whole process?**



Operators: 2020 n = 55 respondents  
Source: Deloitte analysis

There were a number of comments in the survey regarding strong operator focus on low rates, for example “[operators] only want low cost”, “cost [not value] focus”, “all operators seem to be on a ‘chase to the bottom’ with minimal incentivisation for collaboration”.

Another supplier added: “operators [are] mostly looking to drive cost down despite [the] value proposition demonstrating added value across services and equipment”. Only ten per cent of operators (and three per cent of suppliers) looked at outcome-based ways of working as a cost-saving technique (see Figure 7).

One more supplier commented, “operators talk about collaboration, but do not seek value from the supply chain and instead release tenders aimed at maintaining incumbents, but on lower rates and taking on more contractual risk. At a time when sustainability of the UK basin is key, many operators have moved away from early engagement and working together to develop a solution and strategy for total cost of ownership reductions, towards line item discounts.”



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# Collaborating internally





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**High level of collaborative internal working practices reported by both suppliers and operators**

In last year’s survey siloed company structures, bureaucracy and red tape were identified as barriers to collaboration. In this year’s survey we explored this theme further. The results suggest that progress has been made in this respect, in particular by suppliers. The vast majority of participants believe that a high level of collaboration exists in their companies (see Figure 17). This manifests itself in three ways:

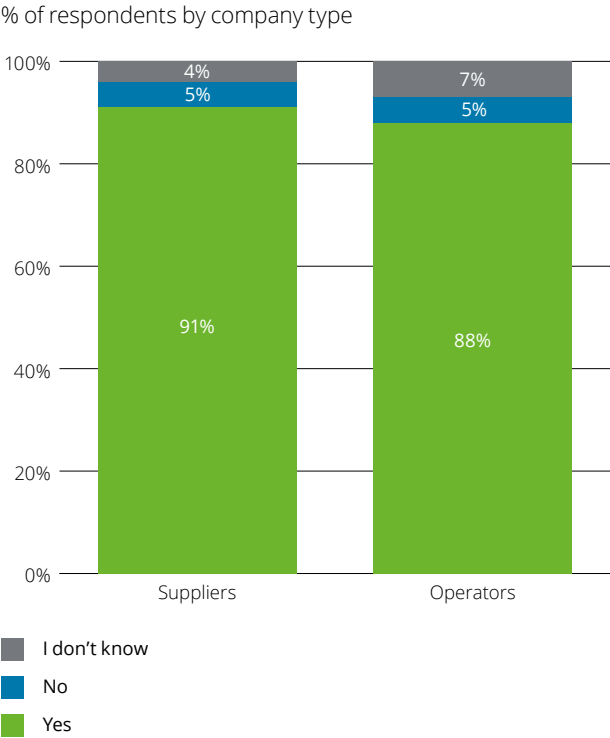
**1 Collaboration being promoted by leadership and included in company values.** Collaboration is often included in company value statements, with executive leadership promoting its importance and business benefits. One supplier said that collaboration is “fundamental to how we work”, while another believed “it is driven by management and is a key value of the business. [It is] an expectation”. An operator stated that “the culture within the organisation is very open and honest with a very strong emphasis on ‘working together’ to achieve successful outcomes”.

**2 Early alignment and regular communication in projects.** Both operators and suppliers commented: “Early engagement on projects, where we have all stakeholders within a project being involved to understand the full project and discuss each other’s requirements as well as potential issues”. Some also noted the importance of communication: “Project-based teams are established with open communication across functions. [We have] regular multi-team progress meetings.”

**3 Cross-functional, agile teams and ways of working.** Many respondents commented on having “agile teams – cross-functional, autonomous, self directed” – across their organisations. An operator said that “[there is] collaboration between offshore and onshore staff, functions [are] working very closely with the business to deliver business goals and objectives”, while others said they had “work flows in which strong collaboration is implicit from the beginning to end” or moved to “scrum and squad agile ways of working”.

Many suppliers also commented on recent or ongoing internal restructuring, some of which was necessitated by a reduction in the workforce due to the pandemic. A number spoke about the removal of layers of management, which made their organisations leaner and flatter, restructured around agile teams with a clear open door policy. Some argued that this resulted in a much clearer definition of responsibilities and more efficient delivery. A number of suppliers indicated that they would like to see similar restructuring in the operator community, which would lead to cost savings and more direct working practices with contractors.

**Figure 17. Existence of internal collaboration within companies**



Suppliers: 2020 n = 129 respondents  
Operators: 2020 n = 55 respondents  
Source: Deloitte analysis



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**High proportion of respondents report internal support for collaboration**

A significant proportion of both suppliers and operators, 84 per cent and 78 per cent respectively, responded that mechanisms exist in their companies to share and take forward ideas on collaboration. For example, a supplier mentioned that they have a collaboration and innovation council. An even higher proportion, approximately 90 per cent of respondents, said that their team leaders/managers were supportive of collaborative initiatives.

**Seizing opportunities to collaborate**

Although collaboration is widely promoted and supported by company leadership, fewer respondents report specific training programmes to help them learn how to collaborate better. Our survey data shows that 55 per cent of operators and 40 per cent of suppliers do not have such programmes set up.

According to our results, less than 20 per cent of respondents said their companies have reward or incentive schemes to seek opportunities to collaborate. Where such incentives do exist, they include spot prizes, peer recognition schemes and bonuses linked to objectives and individual goals. Some respondents also mentioned share options for individuals who contribute to their company's wider success rather than focusing on advancing their own function.

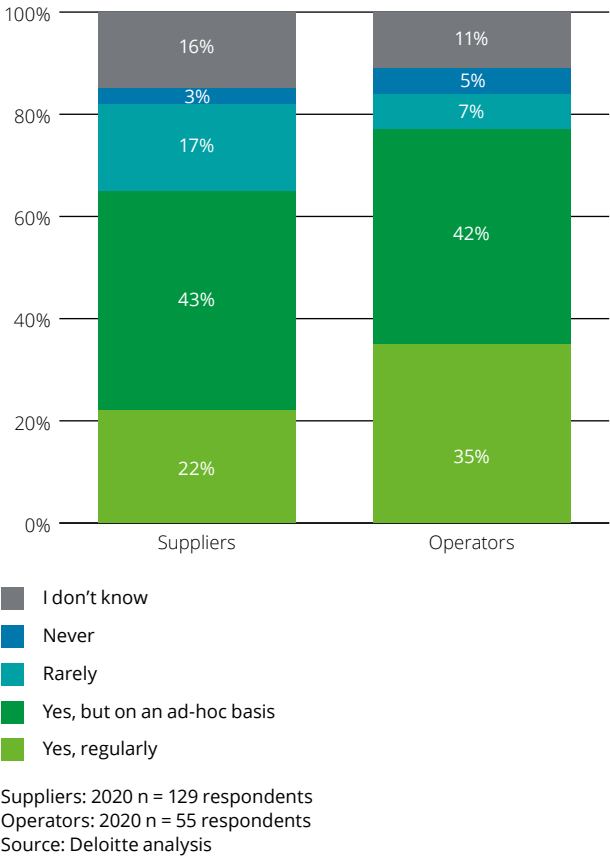
In addition to training and incentives, regular reviews of collaborative efforts could also improve outcomes. Figure 18 shows that a higher proportion of operators than suppliers conduct regular reviews.

Overall, the findings from the 'Collaborating internally' part of the survey suggest that both operators and suppliers understand the main principles and behaviours associated with successful collaboration. These include aligning objectives early in a project, making joint decisions, sharing resources and responsibilities, supporting each other to achieve objectives and sharing information and open communication. All these should be underpinned by strong leadership. Collaboration seems to work well in the absence of commercial pressures related to contract and price negotiations.

As indicated earlier, the commercial elements need to be addressed first and foremost for collaboration to unlock further value in delivering the industry's promise on maximising economic recovery of resources.

“Collaboration seems to work well in the absence of commercial pressures related to contract and price negotiations.”

**Figure 18. The proportion of regular reviews to assess and improve the outcomes of external collaborative efforts**  
% of respondents by company type







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# Collaborating for energy transition







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For the first time, we cover the topic of energy transition in the Collaboration survey. The aim is to understand the progress made in relation to 2035 company objectives, and where and how suppliers can support operators to accelerate the industry's transition to a low carbon future. OGUK launched its industry emission reduction targets in 2020 and a methane action plan is scheduled for 2021 to help shape industry objectives.

**Collaboration and innovation are key for an efficient and effective energy transition**

Decarbonising the UK economy to meet the net zero carbon emissions target by 2050 in the UK and 2045 in Scotland will be a huge challenge, but one that also brings substantial opportunities.

The oil and gas sector has the expertise to help the UK achieve its 2050 ambitions, while also providing affordable energy, supporting existing jobs and creating new career opportunities. However, for an efficient and effective energy transition, stronger collaboration with the supply chain and innovative approaches will be needed.

The ability to collaborate and partner not only with other oil and gas companies and suppliers, but also with renewables businesses will be crucial. Therefore, companies will need to stop adversarial behaviours that still exist in the basin and use successful collaborative approaches – for example those already demonstrated through internal collaboration and others we highlighted earlier.

Innovative technologies and ways of working, as well as business models will also be needed to take full advantage of opportunities that arise and create new ones to accelerate the pace of progress.

**The industry is already making progress, but more action is needed**

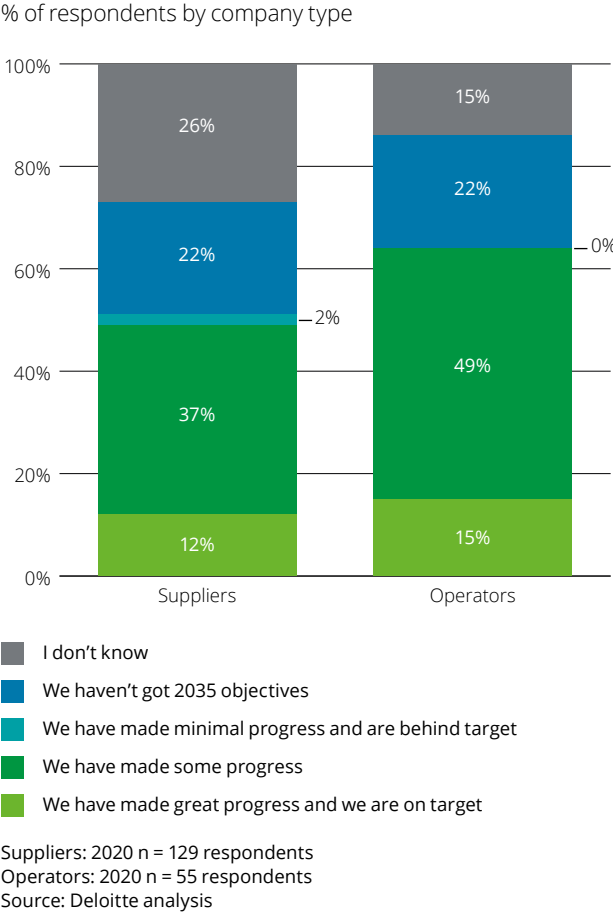
The oil and gas sector was the first UK industry to respond to the UK government's 2050 commitments by creating Roadmap 2035: blueprint for net zero. This comprehensive and ambitious framework commits the industry to a range of actions to help meet the UK's energy needs, develop skills and new technologies, reduce carbon emissions and increase export opportunities.

The sector came under huge pressure in 2020 to minimise the impact of the pandemic on the workforce and to respond to challenges from low oil and gas prices.

Progress continued despite significant economic and personal hardships, demonstrating the industry's drive to achieve a sustainable recovery through lower carbon energy and industrial processes. A number of oil and gas companies also declared their intention to become carbon neutral by 2050.

Figure 19 shows that companies are making progress in relation to their 2035 objectives, with operators slightly ahead of suppliers. However, 22 per cent of respondents believe that their companies do not have objectives, while a substantial portion are not aware of such objectives.

**Figure 19. Operators slightly ahead of the suppliers in terms of progress in relation to 2035 objectives**





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Therefore, companies will need to focus even more on the objectives to ensure that the industry remains on track to support the national commitment.

Supply chain is vital in energy transition

Suppliers will undertake a large proportion of the practical work to efficiently integrate UK offshore oil and gas with the renewables sector to reduce carbon emissions – some already are. A robust and healthy supplier community with the right skills and sufficient capacity will be required for platform electrification, carbon capture and storage (CCS) and developing the hydrogen market, as well as turning gas into electricity offshore to transport it in the Oil and Gas Authority’s (OGA) offshore energy hubs.

The supply chain’s ability to innovate will also be crucial. Small and medium-sized enterprises often provide specialist services or pioneer new technologies that help overcome technological challenges. The importance of this is not to be underestimated as technical challenges will inevitably arise.

Respondents’ written feedback revealed that suppliers are already hard at work to develop new products and services to support energy transition. The majority of products currently on offer relate to helping operators reduce their carbon emissions by improving operational efficiency. These offerings include new technologies to reduce power demand, environmentally friendly transport facilities and waste reduction.

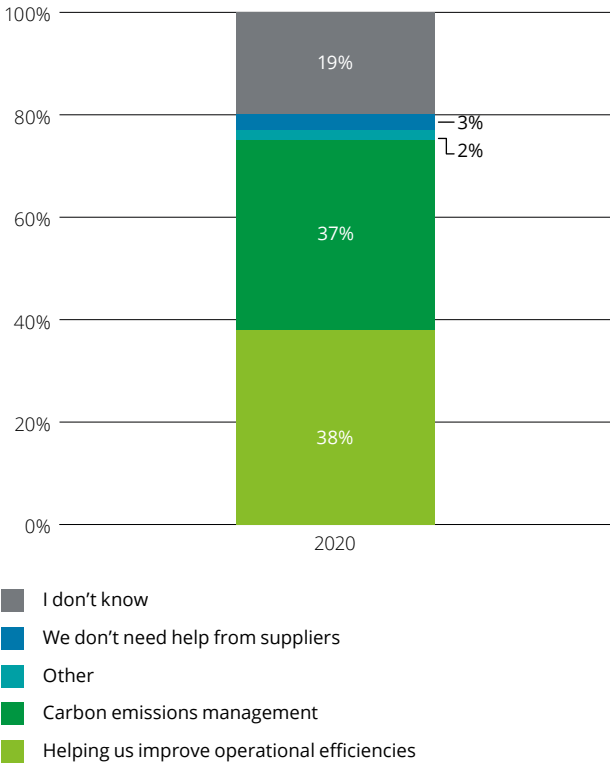
The second largest group of services is focused on specific carbon emission reduction services, followed by products provided for renewables – mostly offshore wind.

Other suppliers spoke of services being developed to support the electrification of platforms as well as the nascent hydrogen and CCS markets. In addition, a number of suppliers mentioned the provision of services related to synfuels.

Products already offered by the supply chain closely match what operators say they will need to reach their 2035 objectives. The majority of operators believe they will need help in improving operational efficiencies as well as managing their carbon emissions (see Figure 20). In 2021, OGUK will be helping supply chain companies identify emissions improvements and diversification opportunities and how to best utilise them.

“Suppliers are already hard at work to develop new products and services to support energy transition.”

Figure 20. How suppliers can help operators reach their 2035 objectives  
% of responses (multiple choice)



Operators: 2020 n = 86 responses  
Source: Deloitte analysis



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**Collaboration in the oil and gas industry**

Collaboration is commonly defined as the action of two or more people working together to complete a task or to achieve a goal, but it is much broader in an oil and gas context. It is about the culture of fostering efficient, direct relationships with suppliers or customers that are focused on bringing value for both. While collaboration means different things to different parts of the oil and gas industry, in general it is:

- A focus on value and the end-goal, and how to get there efficiently
- Aligning objectives and making joint decisions with partners, as well as helping each other achieve those objectives
- Regular conversations about delivery, quality and time – rather than costs and processes
- Sharing the benefits and risks of working relationships fairly between partners
- Investing in and sharing resources
- Openness with partners – willingness to share knowledge perhaps over and above contractual arrangements
- Openness to new ideas and new ways of working
- Fostering long-term, trusted relationships with a set of key suppliers or customers

The results of the survey indicate that industry awareness of what collaboration is and how to do it well have improved over the past six years. Collaboration is discussed at industry forums, promoted by management and now included in the OGA's new strategy as an important tool to maximise the economic recovery of resources.

**More successful financial models need to maximise economic recovery of resources and to position industry for energy transition**

The survey's findings show that collaboration seems to work well within companies. Issues often arise when organisations try to collaborate externally.

F5 – the factor for 'Financial incentivisation' in the Collaboration Index – has always been the lowest scoring factor, while cost reduction has been the main driver for collaboration every year since the survey started. In response to the challenging operating environment, more traditional cost saving methods rather than business transformation techniques were used.

After trust, ensuring that there is mutual benefit for both parties continues to be the second most important driver for success in collaborative relationships.

F6 – 'Encouraging collaboration with the terms of contracts' – continues to be the second lowest scoring factor after F5 since the survey started. This year supplier respondents told us of more onerous T&Cs.



*“The results of the survey indicate that industry awareness of what collaboration is and how to do it well have improved over the past six years.”*

Misalignment of expectations has been the leading cause of unsuccessful relationships. A number of factors, such as difficulties in aligning objectives at the start of the relationship, complex negotiations and contracts could be behind such misalignments.

In conclusion, more successful financial and business models, as well as more straightforward contracting processes, are needed to make collaboration a more powerful tool to deliver the OGA strategy and to position the industry for energy transition. The Supply Chain Principles will play a key role in developing these models, processes and re-energising collaboration. Focusing on the value-driving potential and overall cost of ownership of a project should underpin all these efforts.



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# The Deloitte Framework for Action

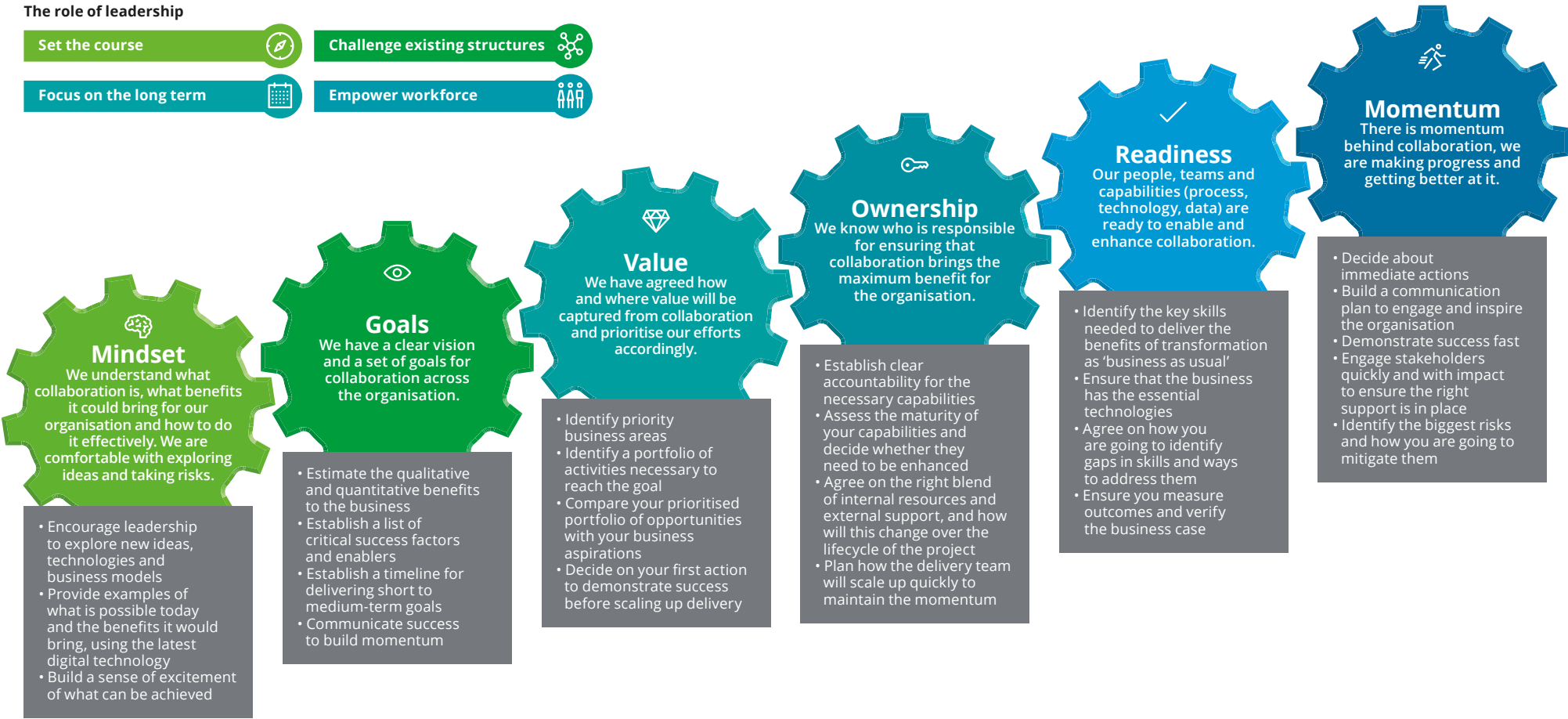




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What can businesses do to improve collaboration? The Deloitte Framework for Action provides the six building blocks organisations need to develop and continue building successful collaborative relationships. These will be essential to re-energise collaboration– to deliver greater value for both operators and suppliers.

The role of leadership







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Collaboration may not be a silver bullet, but it is good for business. Greater collaboration will be a key factor in unlocking future industry developments and to strengthening our basin, our versatility and our resilience.

The OGUK Supply Chain Principles offer a powerful solution to not only increase supply chain resilience, but also maximise its potential as well as utilise its experience, innovative ideas and technologies to bolster activity in the UKCS. The Principles define good practices that enable industry to achieve a sustainable green recovery by helping to eliminate negative business behaviours.

OGUK is championing a North Sea Transition Deal which, if successful, will create a window of all-energy opportunity for our industry. It will stimulate job growth and provide energy security while transitioning to a net zero future. However, we must act now to anchor the supply chain who are essential for the industry to play its role in the transition to a net zero economy.

“Greater collaboration will be a key factor in unlocking future industry developments.”

OGUK's 4-point Supply Chain Plan aims to introduce a more collaborative culture to sustain the sector while ensuring it transforms and readies itself to seize the all-energy opportunity.

1

Explore the 2020 survey results to inform short- and long-term focus areas.

2

Champion better adherence to the Supply Chain Principles, as well as explore opportunities to strengthen the Principles and share best practices in adhering to the Principles.

3

Develop and deliver tools to unlock a more collaborative culture.

4

Continue to drive initiatives that make a tangible difference. These include:

- The Efficiency Task Force – the custodian of the Efficiency Hub and Continuous Improvement Network – (two vehicles for sharing best practices and learning from others)
- OGUK's newly re-energised SME forum – a fantastic platform for the small and medium-sized companies to be part of the wider industry communities, helping to quickly highlight and address any specific SME issues
- Supporting the work of the Supply Chain & Exports Task Force, including the Payment Performance initiative, which aims to encourage as many parts of industry as possible to commit to pay invoices within 30 days, throughout 2021

We must use the results and insights from this survey to harness good practices, learn from industry and drive improvements in 2021 and beyond. My team and I look forward to working with our members to re-energise collaboration in our industry – to help us realise the full potential of becoming a net-zero basin, while protecting domestic energy supplies, jobs and communities in a low carbon economy.



**Katy Heidenreich**  
Supply Chain & Operations Director, OGUK



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Supply Chain Principles



1. Risk and costs should be borne appropriately, be proportional to the work scope and not be forced on anyone; opportunity or good performance should benefit everyone, and performance-based contractual rewards should be investigated.



2. Contractual terms and conditions (length of contract & work scope) will seek to utilise industry standard contracts when appropriate and all parties will commit to mutuality of payment terms (including ‘mutual SC payment terms’). These should reflect that the supplier has to invest for the future of the UK and make an adequate return on its investment in innovation and new technology.



3. All parties should ensure they have the competence and skill to deliver work being tendered and will not accept unsustainable overbidding as a means of driving price down.



4. Contract cancellations should not be without good reason or cause. If an operator or contractor must have the ability to terminate a contract the circumstance or risk should be outlined, explained and understood, not hidden.



5. Purchasers shall endeavour to optimise their Tendering and Audit requirements to ensure Supplier’s resources, time and costs are not unnecessarily impacted or wasted.



6. Tender processes and evaluation should be based on value added rather than unit rates and be flexible to evaluate alternative offers as part of the bidding process.



7. An alternate bid (either technical or commercial) which an operator sees as a winning proposition should be selected for award on its merit. Current practice of sharing alternate solutions with other bidders to allow them to price against it should cease.



8. Operators and Contractors should discourage the practice of “low ball” bidding – which invariably leads to multiple contract variations and effects re-negotiation in the early phase of the contract.



9. To support respective labour agreements in place across the workforce, operators should agree clear rate escalation mechanisms and move away from the practice of fixing labour rates for multiple years.



10. Where a supplier (or potential supplier) feels unfairly treated/taken advantage of, they should notify the Operator MD who will ensure speaking up is not held against them.





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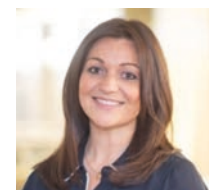
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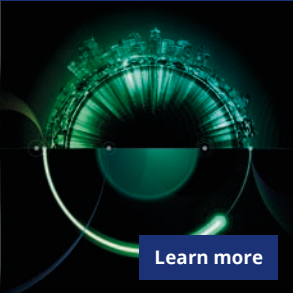
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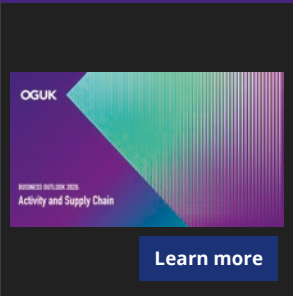
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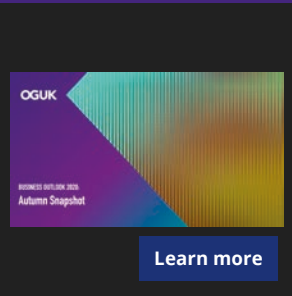
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