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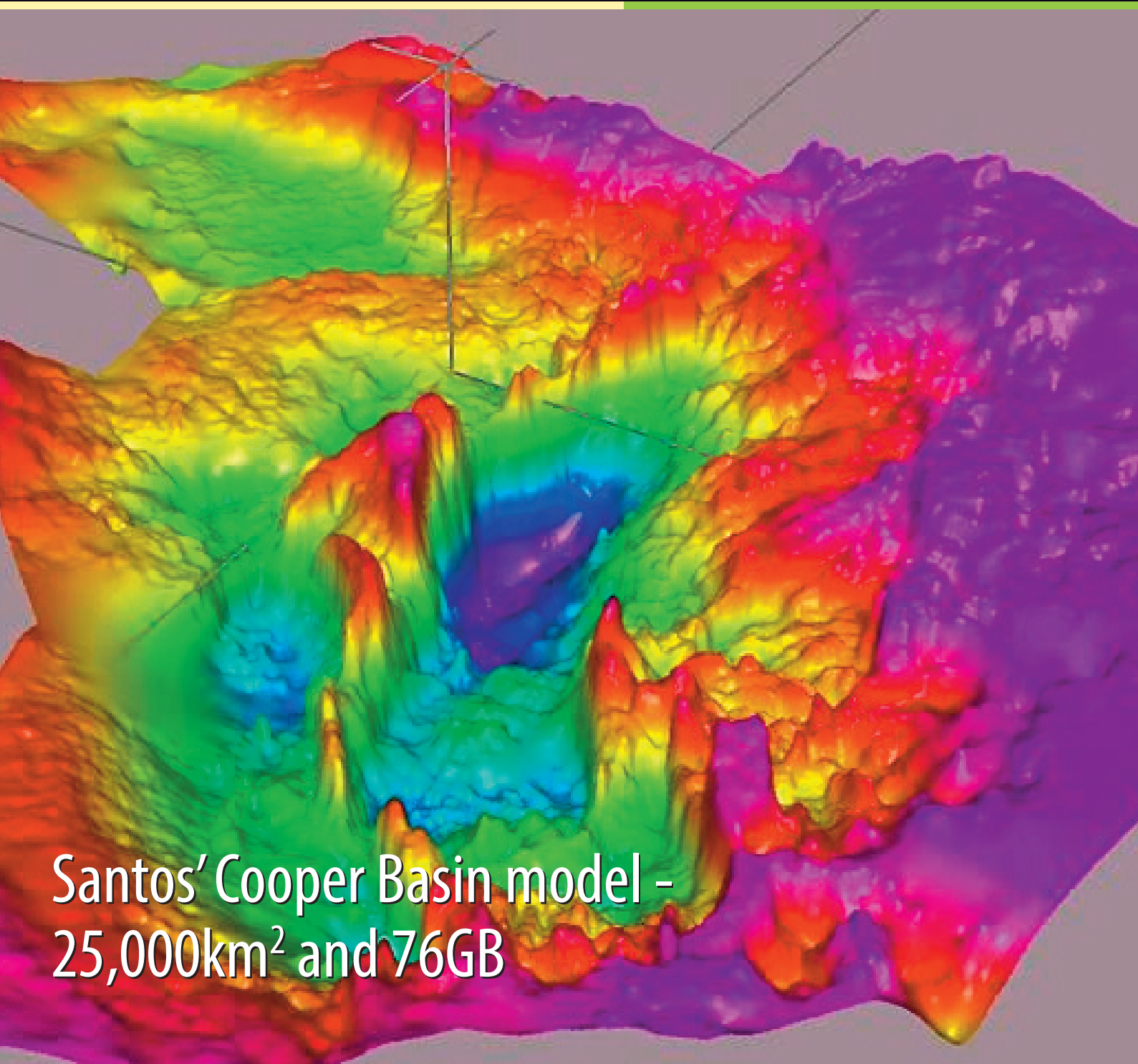
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January 2014

Issue 46



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How to do supplier performance management

by Chris Bohill, Vice President, Consulting & Product Strategy at Biznet.



Chris Bohill

Supplier performance has a huge impact on oil and gas operators.

But performance must be defined, measured and tracked if an operator and its suppliers are to effectively align goals, add value, reduce administrative burden and risk, and drive continuous improvement.

Oil and gas operators must find ways to drive efficiencies through technological innovation and cost control if they are to sustain current levels of shareholder satisfaction. Given that contractors account for some 80% of operators spend and 90% of risk, the global supply chain is a natural target for improvement.

An operator should be able to assess the level of performance they are receiving for that spend. Yet without the right tools providing relevant and up-to-date knowledge, it is difficult for operators to identify and track performance, or quantify the impact of poor performance on their bottom line.

Best practice Supplier Performance Management aims to deliver significantly improved levels of total cost of ownership from the supplier relationship, improve risk management and resource utilisation.

Crucially, it effectively addresses one of the top concerns for supply chain managers today: the lack of visibility.

Breaking down barriers

Spread sheets remain the primary tool employed by supply chain managers to collate information about suppliers and to help track their performance.

Experience shows that spread sheets have many flaws when capturing data across a global supply base, with users encountering difficulties with data duplication, input errors and an inability to ensure the accuracy of the information.

This bottleneck is compounded by the geographic distance between an operator's sites, and the fact that each maintains its own spread sheets and filing systems.

Nevertheless, operators today are sitting on silos of business-critical information that if properly consolidated and mined, could transform the way supplier performance is managed.

Dedicated web-based solutions have been developed to support SPM programs. These platforms allow organisations to accurately measure, monitor, analyse and report on supplier performance, based on near real-time data.

Setting the benchmark

Supplier scorecards are one of the best methods to collate the necessary information, benchmark and drive supplier performance.

Scorecards should contain basic spend, compliance, quality, efficiency, Health and Safety (HSE) and operational metrics, as well as detailing supplier innovations.

A supplier's performance can be measured against past performance, current objectives and compared against similar suppliers.

Performance can be measured over time, across different locations, and within different contracts, products or categories.

Well developed and concise KPIs provide the link between an operator's corporate drivers and the performance of its supply chain. They can encompass areas such as risk management/assessment, Corporate Social Responsibility (CSR), HSE protocols, and communications, as well as quality, efficiency and cost expectations. Ideally, a robust SPM scorecard will comprise no more than 10 KPIs per reporting category.

Non-productive time is among one of the core KPIs tracked by operators in the drilling and completion category. When implemented as part of an SPM program, it can be used by supply chain managers to accurately identify downtime attributable to a supplier.

An example might be where a small land rig is offline due to tools stuck down a wellbore, equipment arriving late onsite, or delivery of the wrong grade of cement. These apparently minor issues could actually mean a crucial link in the supply chain remains offline for several days, at significant cost to the operator.

Similarly, should a supplier arrive at an offshore drilling rig without the correct piece of equipment, they might have to go back to shore, obtain the correct equipment, package it up, and ship it back. This could be a huge amount of non-productive time.

With SPM, a supply chain manager could quantify the cost of that downtime to a high degree of accuracy based on factors such as staffing, equipment rental and maintenance costs.

Sharing data and trends

Capturing the raw data yourself, either automatically or manually, rather than asking suppliers to submit KPIs, means that disagreements on KPIs, objectives, or service levels are all avoided.

Operators can measure suppliers against pre-set targets and contracted performance levels.

With proactive monitoring and management of suppliers, it is much easier for supply chain managers to identify the point at which an external service becomes critical in the chain – i.e. where a single operation would stop the production line and incur substantial losses should an issue arise.

A critical point of failure could be something as simple as a drill bit needing to arrive on time at a specific site, or delivery of clean clothing or PPE equipment. Irrespective of the source or location of point of failure, the outcome remains the same: non-productive time, resulting in project delays and cost overruns. Time in particular is a significant factor, given that a rig can cost \$1m or more per day, for example.

Building strategic partnerships

It is important to rank suppliers, allowing focus on those that represent the largest risk and value-add.

One of the key benefits of an SPM solution is that it enables operators to link all raw data collected to its business strategy and supplier roadmap in a cascading manner. In other words, objectives are categorised hierarchically, KPIs for suppliers are assigned by category at each level, and raw performance data