

The billion dollar warehouse

When International Offshore News spoke to sparesFinder.com nine months ago (see International Offshore News Spring 2000 edition 'Is the oil and gas industry ready for e-business?'), overcoming corporate e-paralysis, industry scepticism and a reluctance on the part of customers to be the first to sign up, were key issues that the team had to deal with. And they had yet to make a profit. How have they fared in the interim? We duly investigated and took our findings to Paul Mayer, sparesFinder business manager for the North Sea oil and gas sector.

Today's sparesFinder is not only making a profit, but also turnover. A snap-shot of companies signed up, that is to say paying for the service, reads like an industry who's who: BP, Exxon Mobil, Alstom Power, Maersk, Camco (Schlumberger) Marathon Oil. A conservative estimate of the total value of parts listed in the sparesFinder database for North Sea companies is put at £200 million, but as Paul Mayer explains with oil company notional accounting values for spares, the actual figure is likely to be three, four or even five times that. It does not end there: in October, sparesFinder debuted at number 47 in the Sunday Times e-league, a survey of the top 100 European Internet ventures. How was this small and extremely niche enterprise able to convert the potential of nine months ago into trading reality?

Evolution, answers Paul Mayer. Recruited from a high profile supply chain management position with a leading pharmaceutical company, he attributes the site's growth to continued innovation, allied with the end-users finding increasing and varied applications for the system.

"One of the most intriguing findings of the last six

months has been the different ways that people are using the system," he says. "One example would be the way they are taking the data and using it for optimisation analysis. For instance if a company has 10 assets in the North Sea they will hold similar inventory, much of which may be duplicated." At the same time, with all the merger and acquisition mania, the newly formed companies are finding that they can use sparesFinder to aggregate inventory data and report back. "If the company find that they have, say, half a million pounds of duplicate pumps, they are now able to make a decision on the data: be it an internal transfer of

assets, an external trading or a combination of the two."

Users are also now utilising sparesFinder as a market information source. Initially procurement officers would use it to make last ditch attempts, now they are using it to make strategic planning decisions. "The oil industry is a conservative industry. When companies buy spares they often buy in threes: one to use; one as back-up; and one as an insurance." Through the system, companies are now finding that they do not always have to buy the insurance item. "In one instance, an oil company found that there were 12 similar pieces of equipment in the North Sea reserve. On this basis they are now able to enter into sharing agreements with the holders of this stock, with attendant cost saving." Or simply to procure internally as consumption of existing is often preferable to buying new.

There have been a number of other 'evolutions' since International Offshore News last spoke to sparesFinder. A colour-coding system designed to aid the user in the search and disposal of spares has been brought in: at a glance you can distinguish your own spares, other companies spares and those of the end user. Meanwhile, back in June, the team started to install embedded access systems in corporate intranet pages.

"Users no longer have to remember a url and password They can click on a link and it's there." Alstom Power (a supplier who recently signed up to sparesFinder) have chosen to use the system in a variety of different ways across their sites. Not only do staff have intranet access to the database; but also their customers can gain access to current inventory via the Alstom corporate web site; the data is refreshed on a daily basis. This stock also features on the sparesFinder site itself. "We see it as another facility for the customer," explains Alstom aftermarket commercial sales manager, Bryn Roebuck. "It seems a low cost way of getting your stock on the web. It may even lead to additional sales." All the majors, who are subscribing, are also using the intranet based access to the system adds Mr Mayer, and it has resulted in the number of searches every month 'now numbering in the thousands rather than the hundreds.'

Another development that the company will introduce in the first quarter of next year is a rental category. Both AMEC and the drilling contractor Deutag, have reportedly expressed strong interest in the concept.

"An abiding challenge for us lies not with the technology itself, but with the cultural aspects of introducing this technology," concedes Mr Mayer. Right now, for instance, sparesFinder are looking to set up user groups for operators and are in talks with the IADC (International Association of Drilling Contractors) and LOGIC." A decision from IADC is expected imminently as they have just had their AGM. "Some things take time. It's not the technology, it's the business culture and working out how to manage the change."

While the pooling of inventory information (virtual pooled inventory) is allowing end users to optimise their holdings, a second major challenge is the sheer dynamism of the market that

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runs in parallel. As one procurement manager put it: "We're 90 per cent happy with the service. The 10 per cent is that in the seven months or so that we've been on, we've yet to sell anything..."

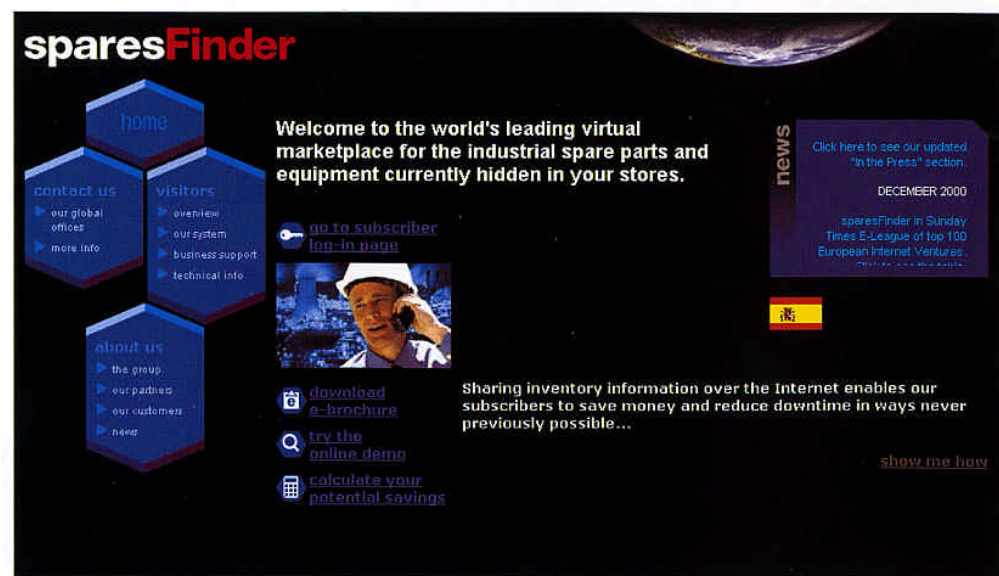
A primary reason for this according to Mr Mayer is that sparesFinder is a classic network service following Metcalfe's law that states: the value of a market is in proportion to the square of the number of users.

"There's no 'buy button' on the site. Our service is a tool that enables users to benefit from market knowledge. We don't want to get in the way of trades and there are no transaction fees. It's about bringing experts in contact with experts who have each paid a subscription to join the club. One hour's lost down-time can cost \$100,000."

That said, sparesFinder's are prepared to act as a broker and auction off materials. Aker Maritime have an agreement with them that if they cannot shift their spares after three months, sparesfinder will come in after four months as a broker and auction it off. The logic is if they sell during the first three months, they will get a better price than they would selling it as scrap, if they have to auction they still realise some of the value.

A source close to BP who are piloting the programme until March, estimate that they have seen savings of the order of £250,000 since commencing their optimisation pilot programme back in May, and are also working on an auctions system agreement at this time. While the savings are not 'massive' when you are talking about a multi million pound inventory, the source concedes that prior to the advent of sparesFinder 'the spares just sat there, as negative performing assets.'

"There will be desperate times when people can't log on fast enough, there will of course be times when they no longer need certain parts and times when they both coincide." Says Mr Mayer. As if on cue, the phone rings. It's Friday afternoon and a procurement manager is looking to access the billion-dollar warehouse.



sparesFinder homepage