

Resourceful thinking

Less fire-fighting, more planning and greater value

November 2015



Ask a mining procurement professional about a typical working day, and she or he is quite likely to say much of it has involved a race against time to get a hold of urgently-needed parts for different areas of the site. This response sums up the dilemma of a function that wants to bring more insight and value, but, more often than not, ends up responding to ad hoc requests.

In recent years, mining companies have made considerable strides towards strategic sourcing, by centralizing supply functions, standardizing and rationalizing equipment, initiating category management processes, establishing preferred supplier lists and categorizing purchases. Despite these advances, an inordinate amount of attention still seems to be devoted to purchasing, in part because procurement has yet to win a seat at the executive table in many organizations, and is often seen as a tactical function charged with reacting to short-term problems.

Some of the challenges include: a large number of ad hoc purchases that breach procurement rules; a lack of official purchase orders, with approvals often made after the purchase has been completed and incidences of loss such as duplicate payments for the same item.

Enforcing the procure-to-pay process

For a procurement protocol to be efficient, and deliver the planned savings, users must be encouraged to carry out operational demand planning and be guided to the appropriate supplier contract and price for each item, and implement the order in the prescribed manner. Suppliers, in turn, should meet the specific contractual demands in terms of quality and delivery, and provide supporting documentation.

By automating the procure-to-pay process, mining companies can enjoy considerable savings, with faster transactions, more efficient processes, reducing lead times and inventory optimization leading to improvements in working capital.

Although this sounds simple and straightforward, much can go wrong if either party fails to process information and capture data correctly, or misinterprets instructions. Every stage of the sourcing process needs to be monitored, recorded accurately, and subsequently checked, to ensure that buyers are getting full value for money from contracts.

Highlights



The procurement process should be carefully monitored, to ensure that employees are ordering correctly and suppliers are meeting contractual terms.



Closer relationships with suppliers can secure availability of parts and equipment at optimal prices and lead to improved material management.



Master data management is a huge challenge, and mining companies must enforce good governance and standardization of product names to receive the right items at the agreed prices.

As the chart on the following page shows, much value is gained in the earlier stages of the procurement life cycle: demand planning, achieving economies of scale, category management and setting up effective supplier contracts plus monitoring supplier risks, using early-warning indicators and preparing mitigation actions for adverse events. There is also value to be gained in the later phases, through managing the inventory and the ongoing supplier relationships, and analyzing purchasing data to provide insights.

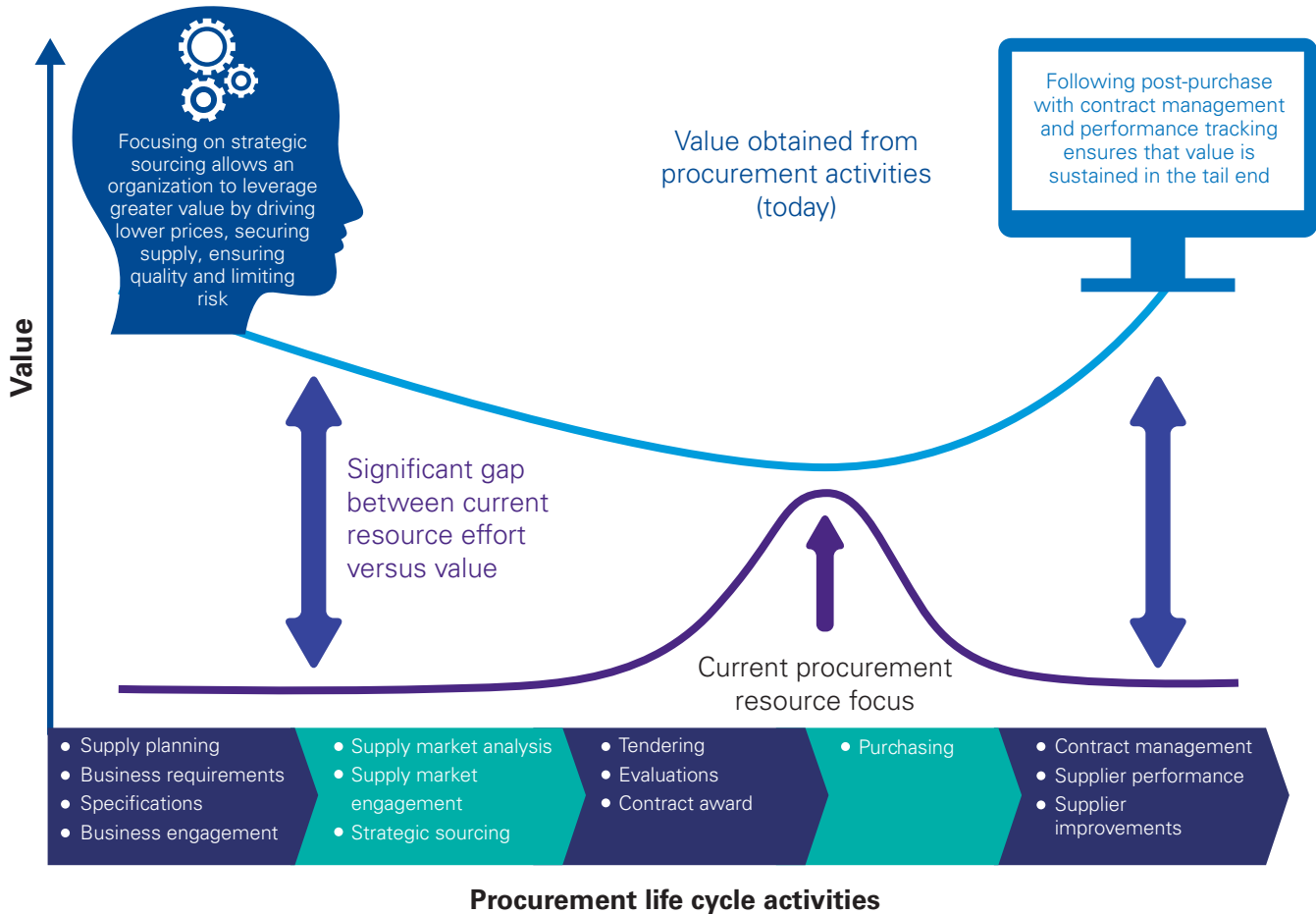
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Generating and protecting value

Strategic sourcing for multiple categories, executed across the entire organization, will help to achieve genuine economies of scale, by reducing the range of

items purchased and making the most of global deals with suppliers. It's equally important to engage 'internal' customers and win the buy-in of the general business, to gain adherence to procurement processes.

Typically we focus our efforts on tactical activities but the most value is found in strategic activities.



Source: KPMG International, 2015.

Procurement Transformation

Lessons Learned and Critical success factors



Source: KPMG International, 2015.

Rethinking supplier relationship management

Mining is characterized by a very high interdependence between buyers and suppliers. In some categories there are only a handful of firms that produce certain items, and an equally small number of potential customers. Both parties must be cautious of over-exploiting their perceived power. Mining companies, in particular, do not want to be left short of vital components; however, they also need to find a way to maintain supplies without being held to ransom, on the grounds that there is no alternative source.

Many contracts are chosen primarily on transaction price and cost/experience of ownership across the life cycle, and the subsequent relationship can become largely transactional, with neither rewards for hitting targets, nor penalties for under-performance. Not surprisingly, suppliers are unlikely to feel part of the wider chain, and have little interest in working towards improving the quality and efficiency of the mine's operations.

Any supplier contract should, therefore, take into account the working life of the mine, with the aim of securing the right quantities, at the right prices for the entire period, as well as the flexibility to increase or decrease orders according to fluctuating market demand. This calls for closer, collaborative, strategic relationships with suppliers that have a vested interest in the mine's operational success, are incentivized to meet quality and delivery goals, and encouraged to come up with creative, innovative ideas for raising efficiency and preserving savings. The supplier relationship should be aligned to the category strategy.

Strict controls over master data

Data can be a huge and often hidden obstacle. Categories like pumps or bearings are often given different names in different sites or countries. When it comes to ordering, one name might not be recognized on the central purchasing register, so the item may have to be bought from a separate, non-preferred supplier at a far higher cost in small volumes. Without strong governance, non-authorized staff could make purchases outside of the agreed procedures, adding to the confusion.

Safety can also be affected. If the wrong part is purchased, equipment may fail, putting workers at risk. A recall of critical parts from a supplier could also be incredibly time-consuming, as the components could be known by

more than one name, and may consequently be hard to locate. In the most extreme instances, this can lead to a costly shutdown.

Not only do companies need to clean up their data to ensure common names around the organization; they must also ensure that, from this day onwards, every employee adheres to the standards, and that all suppliers check back to confirm that the purchase is indeed correct. Formal 'data stewards' should be appointed potentially within a dedicated Master Data Management function, to oversee how transactions are implemented and recorded.

By reviewing performance regularly and discussing problems, challenges can be overcome faster, and lessons learned and shared, which should maximize supplier performance especially when processes become more streamlined.

Competition between suppliers can also raise standards, with the prize being a higher proportion of business vis-à-vis their peers. Ultimately, agreements with suppliers should span different operating units, to maximize economies of scale.

Opening up inventory management

It's not uncommon for suppliers to sell to several operating units of one mining company, giving them extensive knowledge about the client's overall demand patterns and stock levels. By working more closely with suppliers, supply chain staff can tap into this valuable information, to produce more reliable stock forecasts.

Some mining firms choose to give suppliers a degree of control over the mine's inventory, such as holding consignment stock that is kept within the mine, but actually owned by the supplier. This avoids tying up large amounts of working capital in inventory, speeds up delivery and gives the suppliers the option of selling excess stock elsewhere.

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Securing the right talent

Much has been written about the impending skills gap in the mining sector, with many specialized workers approaching retirement and insufficient talent to replace them. Supply chain professionals are no exception; a situation exacerbated by a reliance on short-term contractors, which leads to high turnover, lack of continuity, and a leakage of key knowledge.

In a highly competitive market for people, companies should invest in training and development, set-up corporate academies and/or partner with global institutions or academia, and find ways to retain experienced, older workers, by offering part-time positions or other flexible options. Raising the profile of the

Supply Chain function, and stressing the value of qualifications, can also help attract younger graduates.

With commodity prices plummeting, and costs of labor, equipment and parts rising, mining companies are under huge pressure to reduce their cost base. A well-run supply chain that makes the most of global scale, consolidates the range of goods purchased and the associated suppliers, and manages inventory efficiently, can play a major role in boosting margins. To achieve this goal, supply chain professionals have to devote less time to fire-fighting, and more to strategic planning and supplier relationships.

Do your supply chain professionals:



Spend a lot of time sourcing one-off, urgent items and in the process going outside the agreed procedures?



Carry high inventory levels to avoid running out of stock?



Work closely with suppliers to come up with creative ways to secure supplies at optimal prices?

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Contact



As the National Lead for KPMG's Energy Supply Chain Practice and a Supply Chain and Operations expert, Mark has over 25 years of experience in transformation projects with major clients across Europe, Russia, South East Asia, the US and Australia.

Mark Woods

KPMG in Canada

T: +1 403 691 8000

E: markwoods1@kpmg.ca

kpmg.com/socialmedia



kpmg.com/app



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