Procurement best practices in mining – 7 things you need to know

The face of procurement has changed. Traditional purchase models can no longer satisfy business requirements, and it’s up to procurement departments to align themselves with short and long term business objectives.

Ahead of Mining Procurement & Supply East Coast 2013, Mining IQ has developed a list of seven critical considerations for procurement optimisation.

There are many challenges facing the mining industry:

- There are numerous pressures related to supporting the business to deliver cost efficiencies, due to the external market environment. Delivery to business plan is a key focus for all functional support areas due to the market, and the key enabler will be cost optimisation.
- Suppliers might not be around in 6 months, considering that they are facing a decrease in demand and prices.
- Timelines for major deliverables and projects might not be met if your supplier is downsizing or seeing decreased profit.
- It’s not guaranteed previous commitments will be met.
- Recent or current tendering processes might not be adequate enough to guarantee supply chain security.
- Building win-win relationships is a lot harder due to economic pressures.

Procurement is becoming a strategic asset for mining companies:

- It’s imperative to “test” and get feedback from stakeholders on effectiveness of process.
- Engage with sites and functions to simplify the end-to-end process and ensure that all functional activity remains practical.
- Do not expect “non-functional” stakeholders to have to complete procurement-functional work.
- The business stakeholders only need to know when they have to engage and invest in defining what they’re after. They shouldn’t have to be an expert in all of the processes procurement undertakes.
- Optimise approval process stages and focus more on effective engagement plans by increasing the level of consultation and building confidence to minimise ‘approval gates’ for each step.
• Up-skill procurement staff and define what the capability profile by job should be and work through an assessment process for the individual mapping out a development plan.

• Focus on building standardised role types, capability descriptors associated with that including development paths, and select core standardised internal & external development programs.

**Effective contract governance has critical value:**

• The best contract governance systems address the most important risks to the business with a clear set of rules whilst operating in a well-defined delegation of authority regime.

• Contracts governance processes must allow for timely decision making and not unnecessarily bind employees in red tape. They should also ensure that fundamental legal, commercial, health, safety and environment risks are addressed in all contractual undertakings. It is a fine line between the two and will vary according to the company’s risk appetite.

• The best way to highlight the benefits of standardised contract management structures and procedures is to contemplate the opposite case.

• Without the support of robust structures and procedures, contracts and procurement employees will inevitably leverage off documentation used on previous projects (either the company’s or a previous employer’s) or will create that documentation from scratch to get the job done.

• These ad-hoc arrangements will expose the company to as many risks as can be covered in a contract across all areas of a project. The need for standardised contract management structures and procedures will become self-evident.

**It is possible to improve contract flexibility:**

• Contract flexibility can be significantly influenced by the depth of skill and experience of a company’s internal legal counsel. The counsel can be considered as a starting point for contractual discussions within the sourcing process.

• Risk and reward clauses can be implemented to incentivise early project delivery. By integrating the reward component, you can put in an agreed total value for completion by a specific date, and link that value back to early completion. The reward can be compounded if there are benefits to the end customer for early completion.

• You need to understand what risks you’re trying to mitigate in the first place. Risk clauses can be financial, such as revenue leakage or excess costs, and remediation costs; or non-financial, including operational, regulatory or IP.

• Challenging contractor pricing decisions also has the capability to critically influence risk mitigation for contractors. If there are gaps in a contract, or scope specifications
are incomplete, consequently there is an increased risk such as high contingency costs.

- It’s important to determine what agreement will be applied from a pricing perspective; for example, if it’s a lump sum price or a targeted cost estimate. The decision will significantly impact the relative ease of the management or administration of that contract, as well as the relative transparency in cost.

**KPIs are strongly connected to accountability:**

- Driving decisions down to the lowest level possible in an organisation produces the most favourable outcomes. Not only does this breed motivated and engaged employees, but it also frees up management time to focus on the big picture.
- The best method for conducting this approach is to establish an accountability system that links goals to KPIs and assign KPI owners. For example, a Category Manager’s annual savings goals can become a KPI reviewed monthly.
- When KPIs are on track to meet year-end goals management needs not intervene - except of course to commend the KPI owner for a job well done!
- A good way to review KPIs is via a dashboard. Review KPIs in a group setting so management can quickly focus on areas of concern and determine whether some form of intervention is needed.
- Working through issues as a group allows others to provide ideas on how to fix problems and also gives management an opportunity to develop team members’ problem solving skills.
- In any accountability system it is crucial that any data used be reliable. You do not want to be making critical decisions and spending time and resources based on data that is unreliable

**Category management isn’t a complex task:**

- Reporting should focus on a set of important KPIs, such as **bankable savings** – a function of the amount of spend with a contracted supplier multiplied by an enabled savings factor – and **sourcing share**, which is the ratio of spend on-contact vs. off-contract.
- Sourcing share targets are set depending on the maturity of the contract and the complexity of the category.
- When a category is not meeting its sourcing share goals the Category Manager must determine the root cause. Typically there is one of two reasons for this issue:
  - **Firstly**, there’s something that the preferred supplier is unable to do in the category, in which case the category might need to be tweaked. Either the supplier needs to start providing the particular product or service, or in certain circumstances where they can’t satisfy the demand, another supplier would need to be added to the category.
Secondly, the person who made the decision was not aware of the preferred supplier, in which case it’s a matter of training them on how to identify preferred suppliers.

Supplier selection and relationships are a strategic journey:

- When selecting suppliers to sign contracts, it’s important that any and all business needs are going to be satisfied and that the suppliers are aligned to company values.
- It’s critical to develop strong relationships with suppliers and go beyond the ‘cheapest price’ determinant.
- Engage closely with chosen suppliers, even share information. If there’s a certain category in which there’s a lot of leakage where people are buying from off-contracted suppliers, you can work with suppliers to promote their cause by setting up meetings with site procurement; through which they are able to ascertain why the site might be buying from non-contracted suppliers.
- Hold regular reviews with suppliers and send out internal surveys to measure supplier performance.
- When suppliers are not meeting their KPIs, develop a supplier improvement plan and hold them accountable to improve within a certain timeframe. Suppliers who chronically miss expectations can have their preferred supplier status revoked.

Mining Procurement & Supply East Coast 2013 will feature procurement specialists in the mining industry, including:

- **Jeff Bowman, Senior Category Manager at Thiess**, presenting a case study on: Ensuring Category Management is Recognised as a Contributor to Company’s Bottom Line
- **Bryan Scruby, Project Contracts and Procurement Manager at Parsons Brinckerhoff**, presenting a case study on: Ensuring Procurement is Recognised as a Strategic Function rather than just a Process

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