

# Am I Doing Business with the Right Suppliers on the Right Terms?

Wrong Suppliers	Wrong Terms
Incompetent Unqualified Unmotivated Inadequately equipped Unsafe Unstable Insalubrious	No one is making money One party is making too much money Rewarded for non-productive, even counter-productive, activity



Bad Selection



Unclear final objectives

*We must reach and deliver the right deal with the right supplier*

## Risks in the Mining Sector

1. Exploration, Development, Construction & Execution
2. Political & License to Operate
3. Financing

# Exploration, Development, Construction & Execution Risks

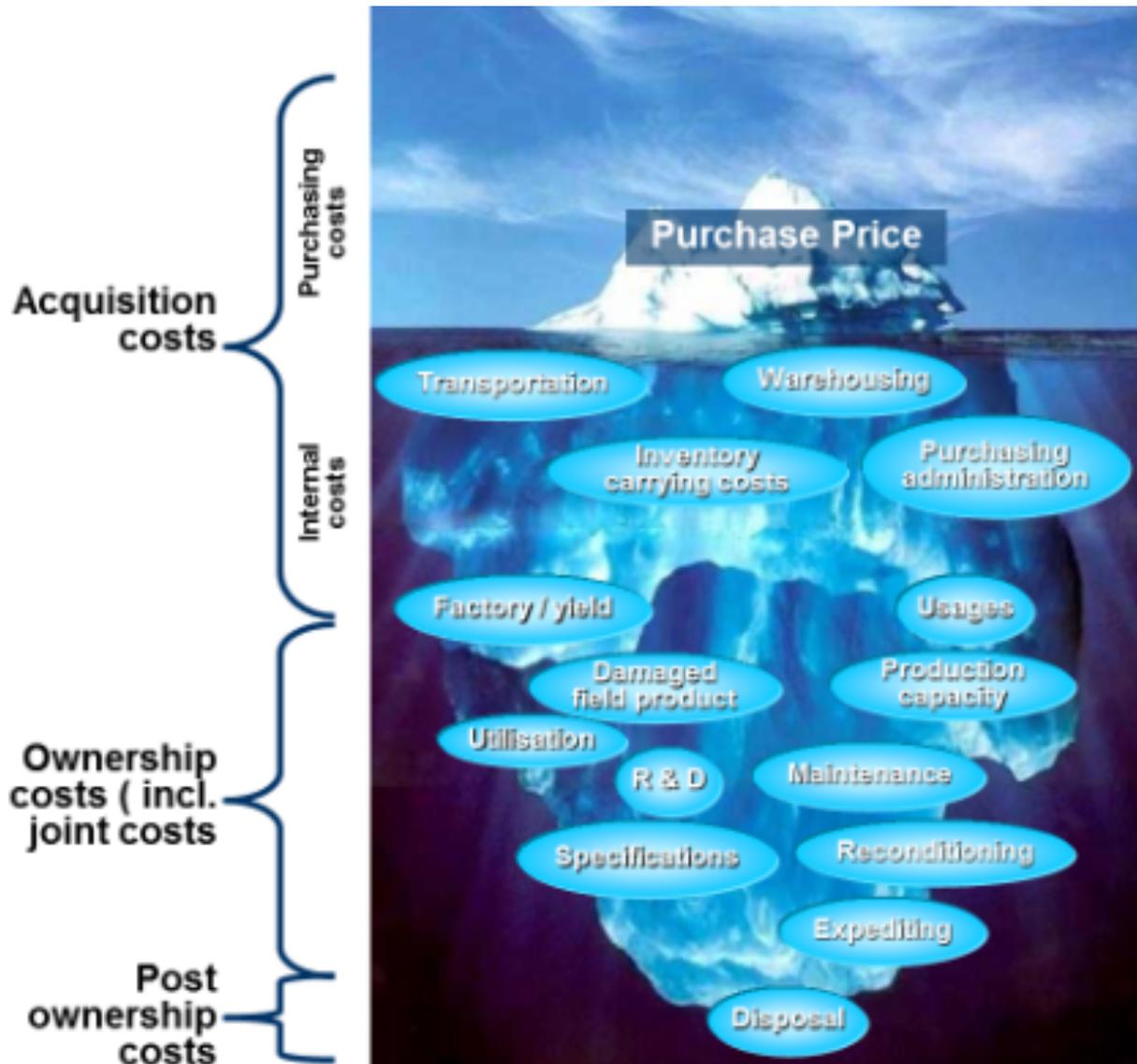
Use of specialized contractors with local expertise/experience:

Drilling/logging, engineering, geology, technical validation, site preparation, blasting, ore & waste haulage, ore processing, brokerage, freight, factoring, hedging, maintenance, camp services, administration,...

Or outright subcontracting of the entire operation

Scoping & feasibility of CAPEX requirements

# “Priceberg” of Total Costs of Ownership



## Example Opportunities

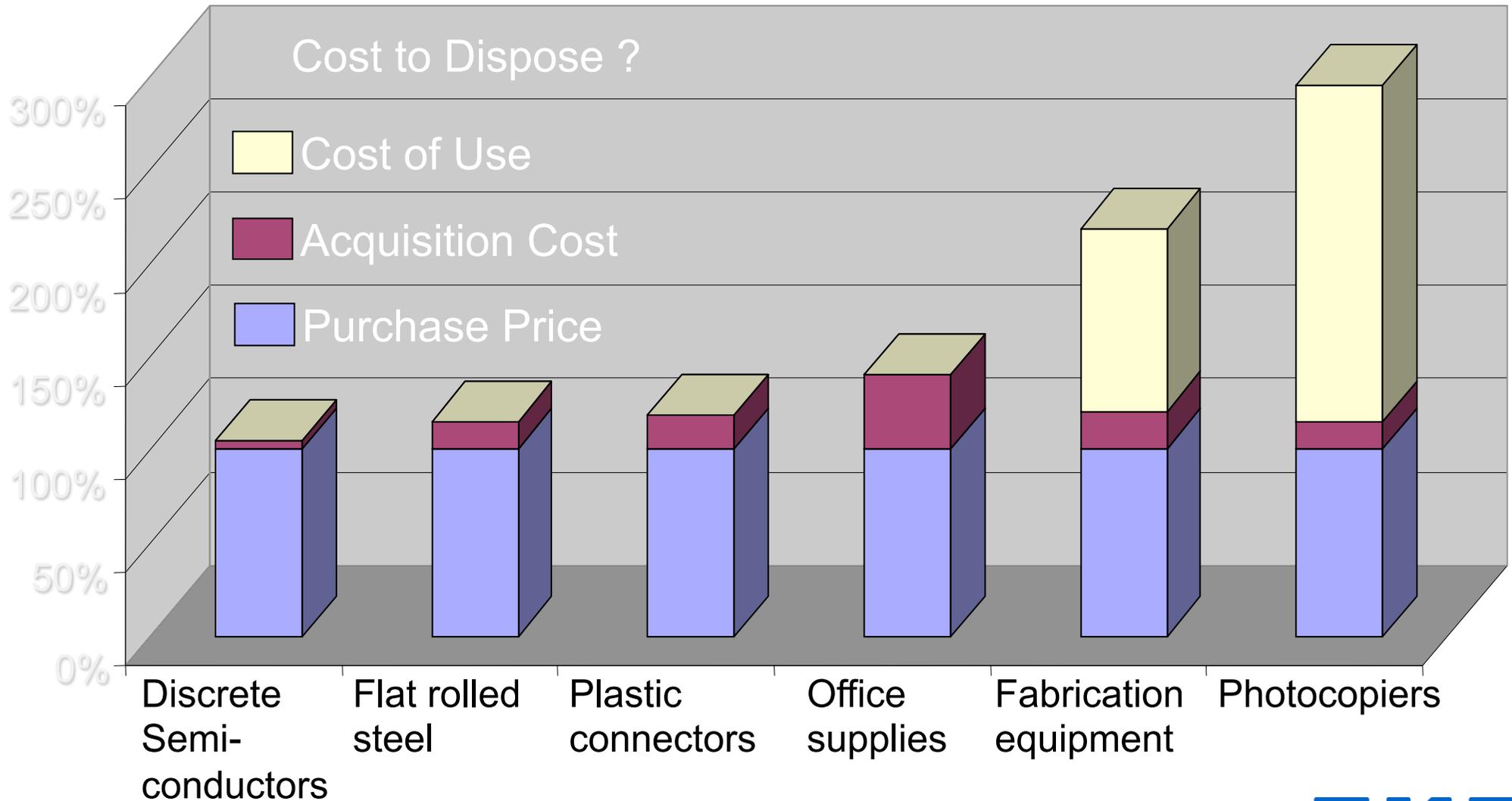
- Improve contract administration
- Adopt internal best practice across plants and supplies
- Development of explicit commodity strategies with specific key value drivers
- In depth industry analysis

## Example Opportunities

- Cross functional problem solving leads to significant savings opportunities
- End users leveraged to reduce usage and improve specifications

Source: Project Ya-Phetogo training document, Iscor 1998

# Sample Total Costs Of Ownership



*Acquisition and life cycle costs will vary by item*

# Accenture's Asset Lifecycle Total Cost of Ownership

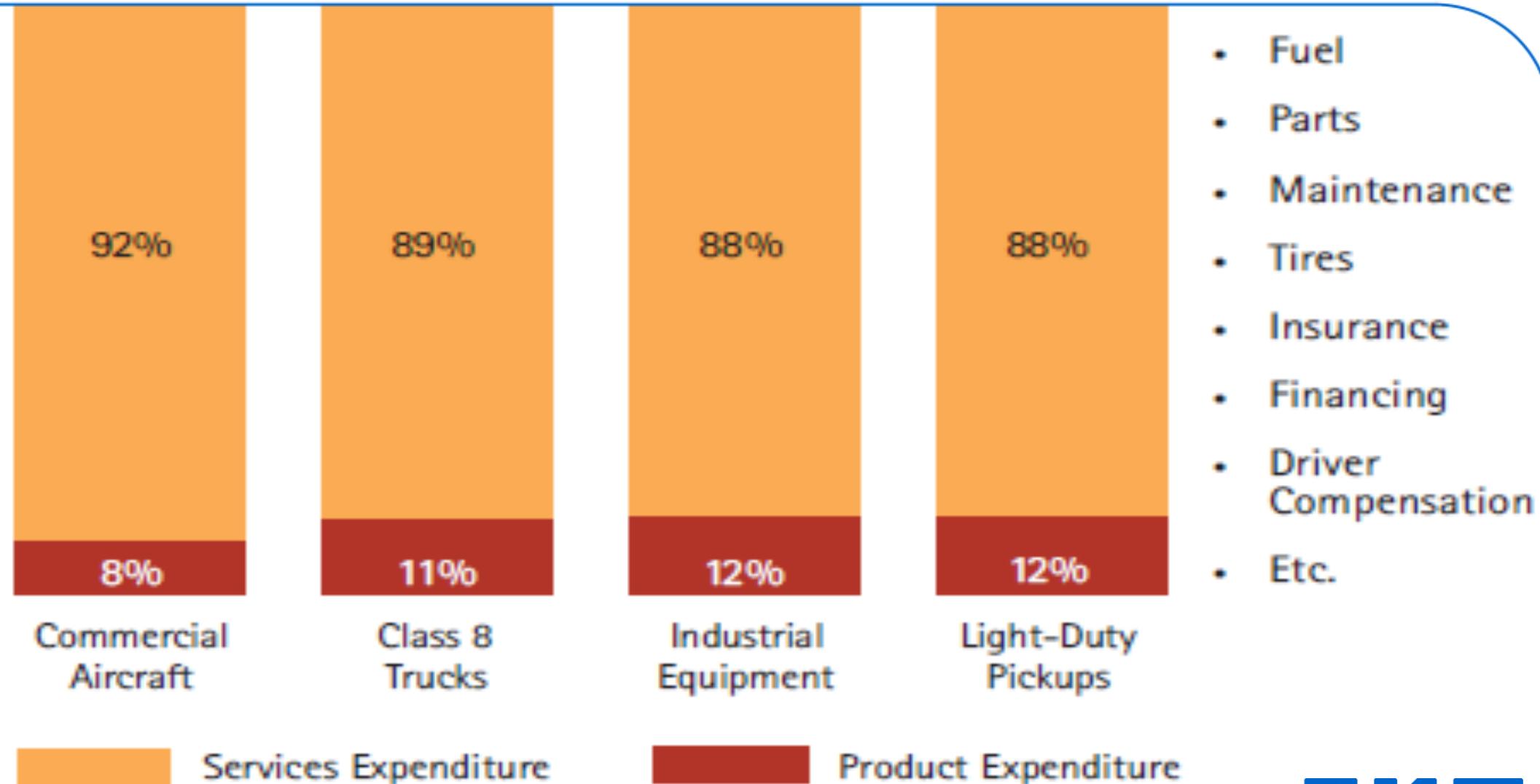


Figure 1. Initial product purchase relative to total product lifecycle costs.

## Political Risks & License to Operate

Many mining projects are built on land where a social license is required to operate:

- First nations and other indigenous stakeholders – ownership & economic development
- Remote locations with limited infrastructure
- Environmental considerations
- Local knowledge

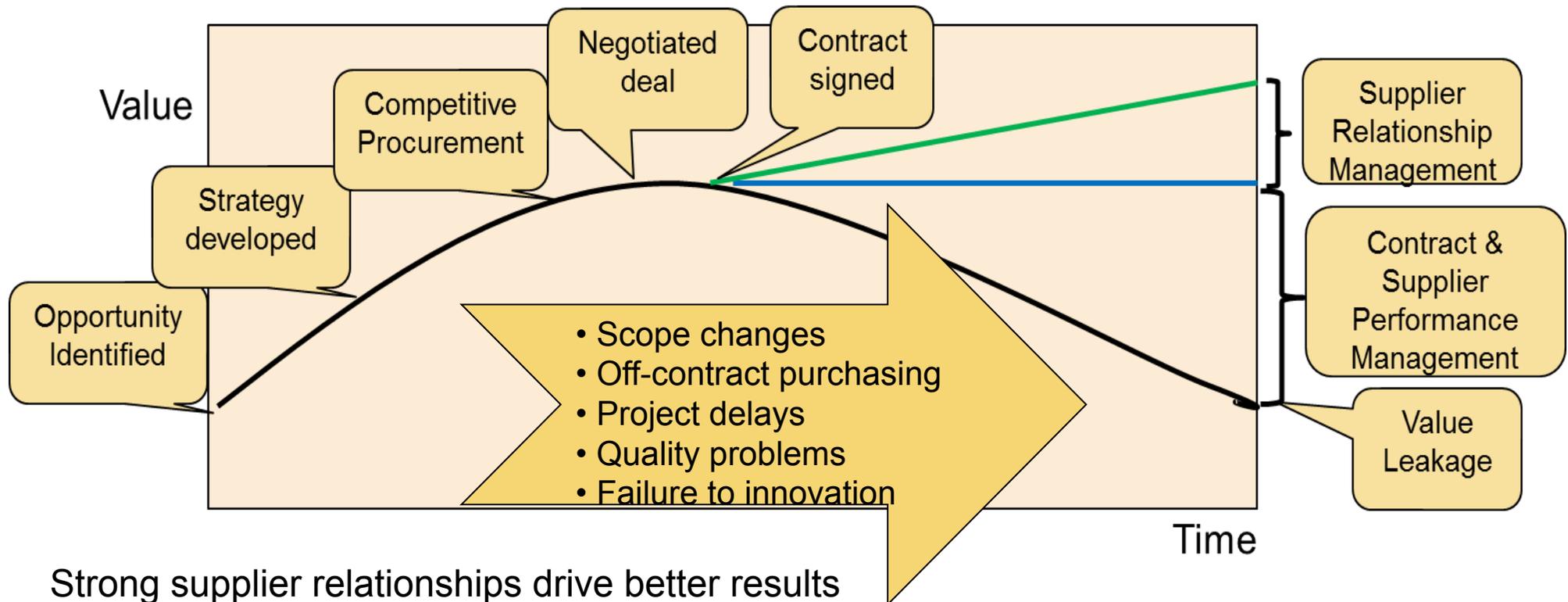
Requires listening to these stakeholders to truly understand their concerns and aspirations.

Can be extremely powerful builder of capabilities and economic development.

Procurement has a pivotal role to play!

# Contract & Supplier Performance Management

9% or more of contract value is lost through “Value Leakage”



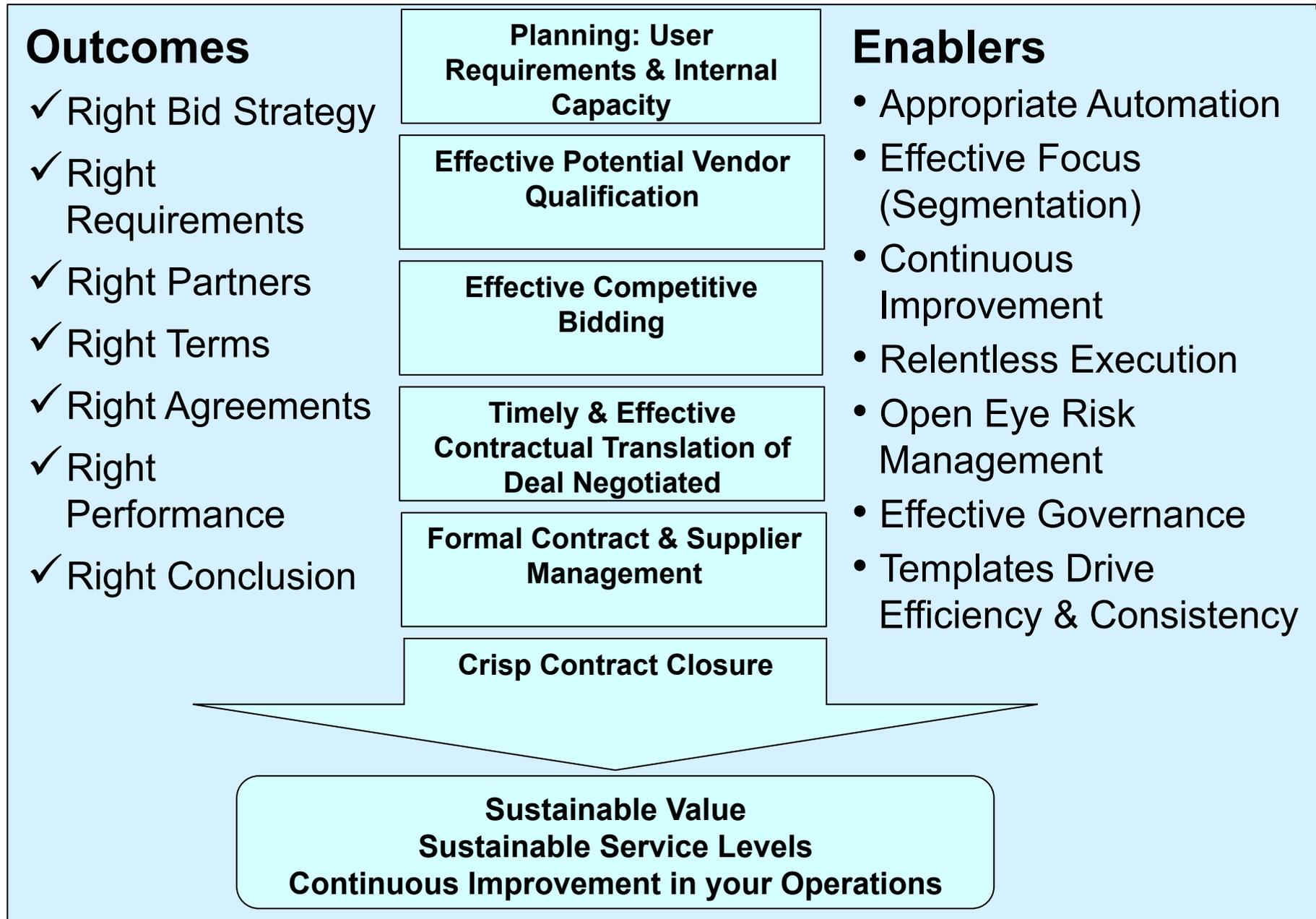
Strong supplier relationships drive better results

- Customer of choice recognition drives priority/responsiveness when issues occur (including shortages), alignment with shared priorities/goals, pricing advantages, and preferential access to innovations & “A” team resources
- Higher degree of predictability, lower incidence of change orders and service failures
- More likely to deliver on promises

# The Right Deal with the Right Supplier

Right Deal	Right Supplier
✓ Mutual benefit	✓ Competent & motivated
✓ Aligned success	✓ Culturally compatible
✓ Equitable risk allocation	✓ Prepared & equipped
✓ Right governance	✓ Committed staff
✓ Secure financing	✓ Stable financials & management
✓ Defined scope, deliverables & change management	✓ Capable of required innovation

# Effective Procurement





*When we work together,  
what once seemed impossible  
becomes inevitable.*

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