

# The tangible benefits of sourcing

Many industries face intense pressure to cut costs. Executives everywhere are forced to tighten the budget belts.

Take the mining industry for instance: despite the pressure of cost cutting this industry has to contend with the mandate of safe production at all costs against the backdrop of other challenges such as commodity volatility, labour pressures, skill shortages, cost overrun on capital projects and adhering to stringent compliance criteria.

This article highlights significant and sustainable benefits that some of our mining customers have received by implementing various sourcing strategies.

Many of us understand that simply cutting costs without building a foundation for delivering supply chain benefits may improve profitability in the short term, but it is not sustainable in the longer term.

## Most of our mining clients follow a three-pronged approach to sourcing:

Strategic sourcing	Typically a three to six month process where subject matter experts collaboratively assess the entire value chain in terms of TCO* and TVO* levers to increase both bottom-line savings and top-line growth.
Tactical sourcing	Often consumables. In the interest of time, costs or risk, subject matter experts can identify certain value levers that can extract value from either existing contracts or new business requirements. This can be achieved by following a methodical checklist approach
Transactional sourcing	Typically these are tail-end low priority sourcing events that most companies have until now not had the resources to manage. These events can contribute significantly to the bottom line if automated.

\* TCO: total cost of ownership – the purchase price of an asset plus the costs of operation.

\* TVO: total value of ownership – typically consist of price, usage / innovation, risk and sustainability, process and operational efficiency.

Ideally it would be great to push all spend through a strategic sourcing exercise but the requirements for highly skilled resources makes it costly. It should be noted that it is not sustainable when specialists leave before the full TCO/TVO is realised.

We have had the privilege of working with many of our clients on large-scale strategic sourcing projects over the last decade. The strong trend in addressing tail-end spend within our customer base has emerged only recently.

Have a look at a small sample of recent mining clients' successes in terms of tactical consumables and transactional tail-end sourcing savings.

## Customer's success sample

**Sample size:** over 100 events.

**Geographies:** local and international.

**Savings:** average of 35% savings in terms of both tactical (consumables) and transactional (lower value three-quote candidates).

**Baseline:** various business strategies in defining baseline prices.

**Saving calculation:** baseline versus price paid (all other award criteria taken into consideration).

Major savings were consistently achieved in engineering and manufacturing of bespoke components. Initial quotes were often used as baseline prices. The suppliers maintained visibility of their rank (without visibility of the cheapest price) and continued submitting improved bids. Most of these items were well-specified by cataloguers in order to ensure like-for-like comparisons.

Classification	% Saving
Waste containers or rigid liners	85%
Completion expansion joints	81%
Galvanized steel sheet	76%
Metal fencing	63%
Industrial pumps and compressors	57%
Gate valves	55%
Pipe expansion joints	53%
Circuit breaker enclosure	51%
Building and construction machinery and accessories	48%
Conveyors and accessories	48%
Distribution power transformers	47%
Steel grating	47%
Building support services	44%
Structural materials and basic shapes	44%



Classification	% Saving
Steel shafting	42%
Distribution and conditioning systems and equipment and components	42%
Environmental impact assessment (EIA) services	40%
Storage vessels and tanks	40%
Electrical systems, lighting and components and accessories and supplies	39%
Instrument transformers	39%
Foundry flasks	39%
Railroad rolling stock manufacture services	37%
Basic steels	35%
Commercial or industrial construction	33%
Building , construction and maintenance Services	33%
Steel	33%
Compressors	32%
Hose or pipe clamps	31%
Plumbing and heating and air conditioning	31%
Pipeline flow enhancement services	29%
Electric direct current DC motors	28%
Pumps	28%
Pipe handling equipment	28%
Chute installation	28%
Tools and general machinery	27%



# About The Supply Chain Partner

Supply Chain Partner is a specialist Supply Chain Service Provider that enables companies to realise sustainable and value-generating procurement solutions.

We work alongside our clients and partners to create fit-for-purpose solutions while enhancing employee efficiency and effectiveness.

## Interested in finding out more?

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