Supplier Development in the Mining Sector

Presented by
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Overview of the Mining Industry in South Africa

"Africa is a mineral rich continent with untapped value to be unlocked. Mining and metals remains one of the best performing sectors despite economic uncertainty - it is one of the industries that continues to attract investment and drive economic growth in most African countries."

- Wickus Botha, Mining & Metals Leader
The total market capitalisation of the 39 companies (2010: 41 companies) increased by 6% from R879 billion in 2010 to R929 billion in 2011.
Figure 3: Market capitalisation for the top 10 companies

Source: Business Day
Description: R\textsuperscript{b}illion market capitalisation for the top 10 companies included in the 2011 aggregation

PWC SA Mining 2012


**Legislative & Regulatory Framework**

- **SA Constitution Act 200 of 1993**
  - Section 9 (equality clause)

- **MPRDA Act 28 of 2002**
  - Mining Charter: Section 100 (2) a : SLP
  - Regulation 46 (c) (iii) : SLP
    - Local Economic and Social Development programmes (aligned with Integrated Development Plans)
    - SMME Development
    - Procurement

- **The dti B-BBEE Scorecard & Codes of Good Practice**
  - Socio-Economic Development
  - Enterprise & Supplier Development
  - Procurement
Stakeholders’ Declaration on Strategy for Sustainable Growth and Meaningful Transformation of South Africa’s Mining Industry. Key considerations:

- **Commitment 5: Beneficiation**
  - Unlock the intrinsic value of South Africa’s minerals; drive downstream, upstream and side-stream beneficiation across mining value chain; facilitate skills and technology transfer for the benefit of local beneficiation

- **Commitment 9: Mine Community Development**
  - Meaningful contribution towards community development, in terms of size and impact, in line with principle of the social license to operate

- **Commitment 11: Procurement**
  - Provide market opportunities for goods and services; adhere to fundamental principles of enterprise development; development mechanisms for multinational suppliers of capital goods to contribute towards social development

- **Commitment 12: Ownership and Funding**
  - Effective means to incorporate HDSAs into the mainstream economy, and to afford HDSAs the opportunity to influence the direction of the business
  - Minimum target 26% ownership by 2014
  - Beneficiaries to include entrepreneurs, workers and communities;
• Is BEE the problem?
• Are the strikers wage demands unreasonable?
• Is the mining industry committed to transforming the sector?
• Do the mining communities have the resources and capabilities to participate in the mining value chain?
• Could the Marikana tragedy have been prevented from happening or is it a volcano that was waiting for the right moment to erupt?
• Is paying higher wages the solutions to the endemic problems in the mining industry?
• Etc! etc!
What is Supplier Development?

Global Perspective

South African Context
What is Supplier Development?

- The importance of definition: **International Perspective**

  - Supplier development is the process of working with certain suppliers on a one-to-one basis to improve their performance for the benefit of the buying organisation. It is closely associated with supplier relationship management and partnering
    
    (Chartered Institute of Procurement and Supply - CIPS).

  - Any effort by a buying firm with a supplier to increase the performance and/or capabilities of a supplier and to meet the buying firm's short and/or long term supply needs.

  - Supplier development activities may range from limited buying firm efforts, and thus may include informal supplier evaluation and a request for improved performance, to extensive efforts that may include activities such as training of the supplier's personnel and, perhaps, investment in the supplier's operations.

    (Daniel R. Krause, Arizona State University, Tempe, 1995)
What is Supplier Development?

• Reasons For Supplier Development: International Perspective
  – CIPS recommends that procurement and supply management professionals should be able to identify sound reasons for embarking on supplier development process such as:
    • improving supplier performance
    • reducing costs
    • resolving serious quality issues
    • developing new routes to supply
    • improving business alignment between the supplier and the buying organisation
    • developing a product or service not currently available in the marketplace
    • generating competition for a high price product or service dominating the marketplace
  – Supplier development should lead to improvements in the total added value from the supplier in question in terms of product or service offering, business processes and performance, improvements in lead times and delivery for instance.
The importance of Definition: **South African Context**

- Supplier development is the process of developing existing black SMEs to enhance their prospects of securing business/tender opportunities from the buying organisation. It encompasses both enterprise development and preferential procurement - two separate but interrelated pillars of the BBBEE framework.

- Supplier development involves taking those initiatives necessary to change the performance (quality, cost, speed, reliability, dependability, competitiveness, compliance etc) of supplier firms. It is a collaborative exercise which requires the participation and involvement of various stakeholders from both the buying firm and the supplier.

- It is about opening up market opportunities to black-owned businesses. The aim is to enable them to compete on a more even footing with larger vendors for the supply of goods and services. This is also referred to as Supplier Diversity in other countries e.g. the UK.
Reasons for Supplier Development in South Africa

- **Broadly:**
  - Compliance with the BBBEE framework aimed at redressing the imbalances of the past or present discrimination and disadvantages against black suppliers.

- **Specifically:**
  - improving supplier performance
  - reducing costs
  - resolving serious quality issues
  - developing new routes to supply
  - improving business alignment between the supplier and the buying organisation
  - developing a product or service not currently available in the marketplace
  - generating competition for a high price product or service dominating the marketplace
  - eliminate fronting/fraud/corruption
  - create a secure and sustainable future, and business operating environment
Rationale for Supplier Development in SA

Reasons for Supplier Development in South Africa

• Supplier development leads to improvements in the value proposition by and viability of beneficiary black suppliers in terms of product or service offering, business processes and performance, compliance with safety and environmental standards, improvements in lead times, delivery, and relationship management.

• Supplier development is the never-ending empowerment process: the multiplier effect of creating small enterprises cuts across all elements of the BBBEE framework;
  – real ownership – e.g. no complicated equity structures,
  – direct management control – typically owner-managed,
  – specific skills development – action learning at its best,
  – cause-related CSI – supporting sustainable jobs and empowerment,
  – entrenched employment equity – majority black-owned and staffed,
  – sustainable enterprise development – directly linked to real opportunities,
  – long-term procurement prospects – leverage opportunity to acquire new clients or grow into other industry sectors.
Rationale for Supplier Development in SA

- While employment equity is well-established in most organisations to comply with the Employment Equity Act, incorporating supplier development into the supply chain is more powerful because it penetrates deeper into the community.

- There are also commercial benefits. Not only are smaller suppliers proven to stimulate innovation, they can also be more responsive, flexible and able to provide more cost-effectiveness than larger organisations.

- Supplier development helps organisations meet their statutory obligations and provides a mechanism to deliver against their social objectives within a commercial framework (leverage your procurement spend).

- To compete effectively in the global marketplace, a company must have a network of competent suppliers. A supplier development program is designed to create and maintain such a network—and to improve various supplier capabilities that are necessary for the buying organization to meet its increasing competitive challenges.

- Supplier development is central to the Strategic Sourcing Process: from a transaction oriented process to an integrated supply chain management process i.e. integrated procurement planning, sourcing, and management.
Global Case Studies of SD

- UK: Supplier Diversity Programme
- US: Supplier Diversity e.g. Minority Business Enterprise, Veteran-Owned Small Business
- Japan: Supplier Development at Honda, Nissan and Toyota
- Central Asia: Supplier Development and Finance (IFC)
- Mozambique: Business Linkages (IFC in collaboration with Engineers Against Poverty)
Local Case Studies of SD

Massmart: SDF

Freight Rail

New locomotives at Rail Engineering, Koedoespoort.
## Drivers of Supplier Development

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<tr>
<th>External Drivers</th>
<th>Internal Drivers</th>
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<tr>
<td>• Investors e.g. PIC, BEE shareholders</td>
<td>• Corporate strategy and management commitment</td>
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<tr>
<td>• Producers / Primary suppliers</td>
<td>• Leadership drive (corporate sponsor)</td>
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<tr>
<td>• Market conditions</td>
<td>• End User preferences</td>
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<tr>
<td>• Industry standards</td>
<td>• Buyer knowledge and ability</td>
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<td>• Public sector institutions e.g. Eskom</td>
<td>• Silo mentality</td>
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<tr>
<td>• Pressure groups (e.g., Civic Organisations, NGOs etc.)</td>
<td>• Company size</td>
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<tr>
<td>• Competitive forces</td>
<td>• Compliance commitment &amp; monitoring</td>
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<td>• Reputation risk</td>
<td>• Strategic sourcing framework</td>
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<tr>
<td>• Supplier competencies &amp; capabilities</td>
<td>• Good procurement practice</td>
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<td>• Customer requirements</td>
<td>• Organisational factors</td>
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<td>• Government policy</td>
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# Barriers to Supplier Development in SA

## Internal Barriers
- Lack of strategy and roadmap
- Lack of management commitment
- Focus of cost reductions
- Organisational reluctance
- Lack of knowledge and understanding
- Lack of competencies and capabilities
- Weak policies and processes
- Lack of compliance monitoring and assessments
- Focus on other procurement targets
- Focus on soft issues / easier targets
- Accounting systems and methodologies
- Safety and environmental considerations

## External Barriers
- Investors
- Lack of industry commitment
- Restrictive industry regulations
- OEMs
- Primary Suppliers/Producers
- Patents and trademarks;
- Lack of collaboration by mining companies
- Competition / competitive practices
Challenges and Shortcomings in SA

• Absence of supportive infrastructure
• Lack of resources: finance, HR,
• Little or no Back-up
• Prevalence of low value adding enterprises
• Sustainability of start-up enterprises
• Lack of entrepreneurial culture
• Lack of enterprise experience / training
• Reluctance by established white businesses to partner with black SMMEs
• Lack of commitment to develop sizeable enterprises
• ‘Unavailability’ of black suppliers
Challenges and Shortcomings in SA

- Lack of access to procurement opportunities by black SMMEs
- Peripheral and non-core procurement
- Abuse of non-discretionary spend principle
- Preferential payment cycles
- Quality of product and delivery
- Inter-sectoral coordination
- Abuse of black SMMEs for tendering purposes
- Allotment of BEE points for tendering
- Uncompetitive pricing from black SMMEs
- Centralized, unfavourable procurement practices
- Procurement commitments monitoring at all levels
- Original equipment manufacturers (OEMs)
- Lack of supplier development best practice
- Lack of supplier development emphasis on tenders
Mining Phases and Key Inputs

**Services**
- Mineral resource assessment
- Exploration
- Mineral deposit appraisal, feasibility assessment
- Mine complex development
- Mineral production
- Closure and post-closure

**Construction materials**
- Steel, basic structures
- Cement
- Machinery, excavation, etc.
- Drills, drilling equipment
- Electronic equipment
- Electrical equipment
- Mine supports
- Lime
- Grinding media
- Cyanides, other reagents
- Replacement parts
- Fuel and related

**Consumables**
- Explosives and accessories

**Utilities and bulk services**
- Energy
- Water and waste services
- Telecommunications
- Onsite, non-core services

**Support services and equipment**
- Uniforms, safety, protective equipment
- Personnel services, training, health, etc.
- Office supplies and equipment
- Wider consumables

**Supply chain services**
- Legal, regulatory and negotiation services
- Financial and risk services

**Environmental services**
- Exploration and mineral resource assessment services
- Feasibility assessments
- Engineering and construction services

**Grade control**
- Mining
- Maintenance, repairs

**IFC LPP Guide - 2011**
Conclusion

• Human Resource Development and Employment Equity continue to improve and streak ahead in the mining sector;

• Local community development, enterprise development, and procurement continue to lag all behind others commitments;

• A stable and sustainable local economy characterised by prosperous host / local community Small Micro and Medium Enterprises is critical in the mining sector

• SMMEs provide the best platform and options to create and sustain local job opportunities

• Supplier Development is a logical and viable alternative to the current “band aid” and fire fighting approach endemic in the South African mining industry.
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Thank You!