

# **Strategic Alliances in the Mining Industry**

**Bede Boyle**

**Convener**

**AustCoal Consulting Alliance**

- 1 Cost Cutting**
- 2 Central Tenet of Growth Strategies**
- 3 Critical Success Factors**
- 4 A Strong Case for Alliances**
- 5 AustCoal Consulting Alliance**

- **Increased mining costs are a strong incentive to examine innovative strategic alliances, not just to contain these costs but to deliver added value.**
- *“The decision to use contract miners or to be an owner/operator is one that a lot of resource companies are evaluating in the current cost environment as we’ve seen rather dramatic increases in costs.”*

SMH, September 2006

**Recent studies provide ample evidence of how costs are escalating on a number of fronts.**

- **Dr Don Barnett's recent study of five listed Australian coal companies showed FOB cash costs increased between 12.4% and 52.7% over three years from July 2003 to June 2006.**

**Peter Coates, Chief Executive Officer of Xstrata Coal has identified increases of**

- **100% in diesel,**
- **95% in royalties,**
- **60% in explosives,**
- **25% in contractors,**
- **20% in roof bolts,**
- **10% in distribution,**
- **8% in tyres and**
- **4% in both electricity and labour**

**impacting mining costs over a three year period.**

- **The average cost increase of the five companies studied by Dr Barnett was 20% over the last twelve months of his three year study.** [donminec@bigpond.net.au](mailto:donminec@bigpond.net.au)
- **The risk is that these cost increases become embedded costs.**

- **This alarming cost escalation has clearly focussed companies on the potential of contract mining and**
- **most recently innovative strategic alliance arrangements to contain costs**
- **especially in complex large mining projects with high levels of uncertainty.**

- **Strategic Alliances is now a central tenet of many mining companies growth strategy.**
- **Strategic Alliances represent a strategic shift from contractual based relationships to collaborative relationships.**
- **The adversarial nature of contractual relationships leads to non-added value activities.**
- **Successful alliances eradicate non-added value activities.**

- **Strategic Alliances had their genesis in the partnership sourcing approaches developed within the Japanese company families – the keiretsu – in the 1960's and 1970's.**
- **In fact many commentators place their partnership approaches as the single greatest factor which gave the Japanese their unprecedented success in the 1980's and early 1990's.**

## **Alliances between oil and gas producers**

### **British Gas and British Petroleum,**

- **major contractors Halliburton Brown and Root, Global Marine Integrated Services, Kvaerner and Schlumberger and**
- **SME's including Bywater were credited with achieving step changes in sustainable performance for the North Sea oil industry.**

- **Contracted mining services tend to be tactical in nature, of low complexity, with a clear scope of works, for which there are many competitive suppliers – they are managed for cost**
- **Alliances are those where the supplier has a direct impact on the strategic priorities of the principals business, and where mutual trust and knowledge required by the supplier to add real value to the principal cannot be replaced easily**
  - **they are managed for value**

- **Experience in the North Sea oil industry suggests that successful alliances begin with a *clear business need* for all parties, that a set of *shared goals and shared values* must be agreed upon, that an *integrated planning process* is employed, all of which is underpinned by a *common measures model*.**

*A clear business need* answers the question

**“why am I doing this?”** For example:

- **Need to dramatically reduce cost**
- **Need to effectively manage risk**
- **Need to effectively manage uncertainty**
- **Maximise return on investment**
- **Access to scarce resources**
- **Access to technical expertise**

*Shared Goals and Shared Values*  
must be agreed upon at the outset.

- **The single most important test of the shared goals is that they fully align back to the goals of the individual organisation.**
- **The difficulty of marrying two corporate cultures should not be under-estimated.**

**After all, if an entrepreneurial firm is trying to Tango with a hierarchical firm doing the Foxtrot, it is good to know that upfront.**

### *Integrated Planning*

**is the task of saying how you will reach the shared goals and has two key elements:**

- **Known problems**  
( **Incremental Change**)
- **Unconstrained Opportunities**  
( **Step – Changes**)

### *The Common Measures Model*

**measures progress towards the shared goals.**

- **Consider a topside alliance in the oil industry. Its shared goal is to maximise production for minimum operating cost. That's it!**
- **The operator of the platform has the whole asset to think about, not just topside.**
- **But for the alliance it is those two strategic measures that matter.**

**There is a strong case for Strategic Alliances in the mining industry.**

- **Strategic Alliances can span from the pre-feasibility phase into realisation of major mining projects which unlock significant value for both participants.**
- **Successful alliances must be driven by business leaders from each organisation.**

**Alliance between 12 leading consulting firms focused on meeting the needs of the coal industry and its service providers**

- **Bede Boyle** - **HiValue Strategies**
- **Don Barnett** - **MINEC**
- **Greg Clarke** - **ABM Systems**
- **Jim Laird** - **Synergy MCG**
- **Michael McLean** - **WD Scott**
- **Wayne Perry** - **Pacrim Environmental**
- **Bob Purser** - **Purser Communications**

## Specialist consultants

- **Ross Broadbent – Engineering Management**
- **Harry Bowman – Geology & Mineral Economics**
- **Bob Hurley – Strategic Marketing Advice**
- **Greg Mattila – Mine planning and development**
- **Michael Minns – HR consultancy**

[www.austcoalconsulting.com](http://www.austcoalconsulting.com)

- **Brad Shields – Web-based CRM**

- **As the former Chairman of Bywater McLean Pty Ltd, I have drawn on Bywater experience in the North Sea oilfield to develop my strategic thinking for this presentation.**

**Bede Boyle**

**Convener**

**AustCoal Consulting Alliance**

**[boyle.bede@bigpond.com](mailto:boyle.bede@bigpond.com)**

**[www.austcoalconsulting.com](http://www.austcoalconsulting.com)**