On the Flipside: Why cost cutting is out; revenue maximization is in and value is always King.

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ABSTRACT

The mining industry's attention has shifted over the last decade with the recovery from the downturn resulting in greater development of innovation and new work methods in a bid to remain competitive and deliver higher productivity. The emphasis on cost reduction to improve profit margins has primarily been the focus of the "work smarter" campaigns embraced within the industry. But is this strategy holistically the best-for-business, or does it place a ceiling on revenue opportunities and inhibit mining companies from truly maximising value?

Businesses need to maintain a balance between active cost management and revenue generation often resulting in cost reduction strategies at site level. These strategies have merit, assessing areas of cost wastage across operations and creating space for opportunity. However, this potentially creates distractions from the goal of enabling growth and may lead to the sacrifice of quality and delivery. Focusing too heavily on cost reductions without addressing revenue generation is an unprofitable lens to look through, and the relationships between cost, revenue, quality and profit margin can often be overlooked resulting in missed opportunity to maximise value. How these relationships are effectively employed by mining companies to reap the rewards from an overarching corporate perspective down to site level remains a fluid concept depending on the nature, operating market and strategy of the business. A common directive from businesses to their operations is to strive for greater profitability and productivity. The quantification of these requirements, and the nature of the cascading message delivered, impacts the methods employed by the operational team to meet the expectations of the business. Cascaded strategies, if not delivered with appropriate participation and buy-in can often be perceived to be knee-jerk and create frustration for operations who are squeezed to deliver on expectations by slashing site costs. This squeezing is not only felt by the mining operation but at the individual level and can result in increased team stresses. In some cases, this may also steer behaviours towards activities that result in corner cutting and an elevation of operational risk, potentially increasing associated incidents and injury. Driving down costs by any means can create an unhealthy tunnel vision where value is no-longer assessed for best-for-business results.

By flipping the viewpoint to a value-based approach revenue opportunity may be realised and potentially exceeded, however this opportunity may be missed if value is overshadowed by a cost heavy focus. By analysing a selection of real operational cases (ranging from mining contractors through to in-house mining giants), it becomes apparent that practical revenue maximisation strategies are not only key to an increase in value and cash flow but to a stronger understanding of business drivers for sites and operators alike. In the cases evaluated additional revenue opportunities are foregone in favour of cost reduction strategies resulting in negative impacts on the associated operations and wider businesses. The associated learnings of these cases place heavy emphasis on resource management, development of operational personnel and technologies and greater supply chain management visibility.

Alignment towards value generation is king. If strategies are not implemented focusing towards value and revenue maximisation, the opportunity loss experienced by mining operations could continue be great and the question should be posed; when the next up-turn hits will operations be ready to reap the rewards or still have a glass ceiling above their heads?