

Contractor vs Owner Mining

Deciding on Contractor- or Owner Mining, and making the transition

Mine management teams often have to decide if they will undertake a mining operation using their own equipment and personnel or if they will contract the operation out to a mining contractor.

When making this decision, the typical considerations or influences on the decision include:

- › Life of Mine
- › The availability and application of capital
- › The project complexity and availability of skills
- › The mining strategy and risk appetite of the owner's team

"Mining in an African country requires an ability to adapt and to fit in with local customs and practices, albeit not always efficient and applicable to the job at hand," Henk Fourie, 2004.



Making the case for Owner mining

When owner mining makes sense

When running an owner mining operation, the owner has greater control of introducing and managing functionality like technology, changes in systems, changes in management, and changes in strategies.

An owner-operated mine maintains control over the entire mining operation, including the mining fleet, people and management processes.

An owner-operated mining operation may be viable in the following scenarios:

- › Sufficient Life of Mine to pay back capital expenditure
- › Ability to manage the operation effectively with in-house expertise
- › Where the size of the operation is large enough to justify the in-house management overhead

Key Insights

When the owner has direct control over mining operations, contractor's risk premiums can be eliminated, which results in a more cost-effective operation.

Owner mining benefits

There are various advantages to running an owner-operated operation

- › Owner equipment and staff:
 - When managing own equipment fleet there is a greater focus on preventative maintenance
 - Provide greater job security to staff
 - Longer community engagement and socio-economic upliftment
- › More continuous production profile, with more control over grade, volumes and information
- › Direct control of mining costs
- › Ease of implementing improvements on owner fleet
- › Flexibility to change mining method, equipment and production execution
- › Greater control over recruiting, retaining and developing people to drive business success and meet production targets

Making the case for Contractor mining

When contractor mining makes sense

In all or most cases, making use of contractors becomes a natural choice when considering the shortage of in-house capabilities of staff and a lack of experience when specialised work needs to be carried out.

Owners may favour employing the services of contractors in the following scenarios:

- › Projects that require specialised skills
- › Variable production operations with frequent equipment changes
- › Short-term projects for which the owner's existing team does not have the available skills and capacity
- › When there is a need to mobilise quickly
- › Projects or tasks that does not form part of the core business activities
- › To address surge capacity in the mine plan for the over-and-above owner-production
- › When the mining company is capital adverse

Key Insights

More often than not, a hybrid model exists where both the owner and contractor operate simultaneously. Contractors are measured differently to the owner's team. And how the contractor is managed is key in ensuring a mutually beneficial relationship between the owner and contractor.

Contractor mining benefits

There are various advantages to mine owners when using contractors.

- › Contracted staff management and recruitment lies with the contractor
- › Contractors can easily mobilise equipment and staff through their networks
- › Contractors can often offer leaner operations in terms of staff, space required and maintenance practices
- › Contractors offers the owner's team less administration to manage teams

Contractor mining considerations

When using contractors there are two major considerations to take into account, namely the increase in costs and where and how critical knowledge is stored.

The latter can become a great concern when contractors change, or the operation transitions into an owner operation. Previous work, knowledge and lessons learnt can often be withheld by the contractor, making it difficult for the owner to unlock potential in future.

Transitioning... Is it possible?

Considerations for transitioning

Irrespective of running a contractor-operated- or owner-operated mining operation, the largest impact is on people. Managing the impact on different stakeholders such as operators, supervisors, artisans, community and more is the key to a successful transition.

The largest risk of transitioning is the loss of production. It is therefore important to conduct a Gap-Analysis between current and future states and prepare an operational readiness plan for the transition project.

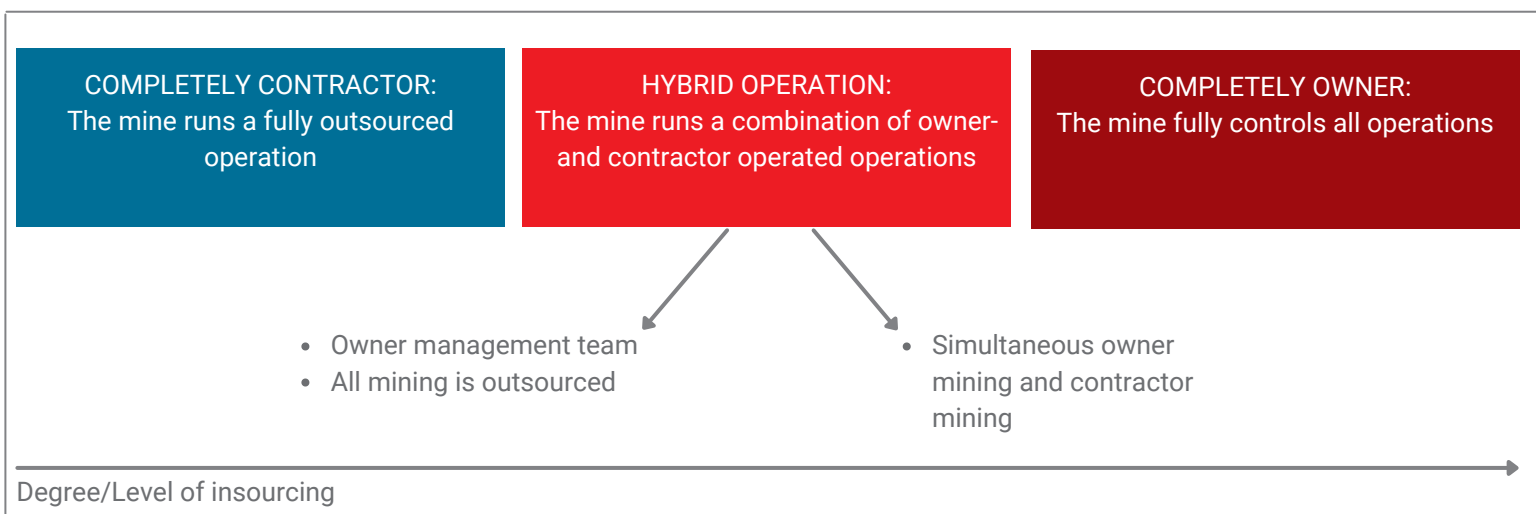
Key Insights

Transitioning from contractor mining to owner mining and the other way around is not an easy process, and this decision should ideally be made prior to mine start-up. It is also key to remember that each mining operation is unique, and that there are different implementation strategies to consider.

One or the other, or both?

Deciding on a hybrid model is an alternative strategy, which offers flexibility in capital expenditure, contracting, risk management, human resources and legal relationships.

The figure below illustrates the different levels of insourcing:



References:

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