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Tracking the trends 2024

Navigating global challenges and opportunities in mining and metals

Introduction

Navigating global challenges and opportunities in mining and metals

As we enter 2024, the mining and metals industry finds itself at the center of a complex matrix of challenges and opportunities, expectations, and demands.

With supply shortages looming in metals that are critical, not just to the energy transition but to global urbanization and industrialization, stakeholders are acting strategically to secure their supply chains (copper, for instance, is expected to see a supply deficit of 9.9Mt by 2035[1]). With supply source alternatives such as urban mining still in their infancy, downstream companies and even governments are striking deals with miners and metals providers in a reshuffle that has seen some traditional value chains realign over the past 12 months.

Organizations also remain under pressure to improve the efficiency of existing assets and operations by embracing generative artificial intelligence (gen AI), leveraging third party delivery models with specialized back office capabilities and to unlock new value in assets. Additionally, the need for mining and metals companies to collaborate with industry peers, suppliers, and competitors to tackle productivity and environmental issues, all while upholding environmental, social, and governance (ESG) expectations in day-to-day operations remains a priority.

With strong business strategies in place and 2050 sustainability targets as its North Star, now is the time for the mining and metals industry to accelerate growth. However, with heightened uncertainty in the global geopolitical sphere and volatility in commodity markets, to do so may not be easy. Companies that navigate uncertainty, work with governments to address permitting issues for new projects, rethink the strategic value of exploration, work with regional players to address skills shortages, and drive toward becoming more purpose-led organizations are most likely to prevail.

In this, the 16th edition of Deloitte Global's *Tracking the trends*, a team of professionals from around the world provides insights and examples as well as practical ideas to help mining and metals companies rise to the challenges that lie ahead and capitalize on new opportunities. We're looking forward to discussing these trends with you in more depth and helping your organization to continue forging its own pathway to success. Thank you for your ongoing support.

Endnotes

1. Camellia Moors and Kip Keen, "Looming copper shortage shifts attention to alternative supply solutions," S&P Global Market Intelligence, 7 September 2022.

Trend 10

Third-party delivery models: Gaining agility and competitive advantage through next-gen approaches to outsourcing

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The continued evolution in the global risk landscape, with a prioritized focus on sustainability and increasing regulatory requirements, has resulted in organizations seeking new ways to reduce costs and evolve their capabilities in an agile and non-labor-intensive manner.

Furthermore, supply chain disruptions due to geopolitical events saw organizations seeking new ways to source regionally and locally during 2023, all while the global economy faced a possible recession.[1] In response, many companies are turning toward third-party delivery models (TPDMs) for certain business functions, such as cybersecurity, data and analytics, and environmental, social, and governance (ESG) reporting, to fill capability gaps, drive value and agility, and provide end-to-end solutions as they build blueprints for the future.[2]

Why consider third-party delivery models?

The early 2000s saw a wave of outsourcing arrangements across different industries. Typically, these would target low value-add transactional services and take advantage of labor arbitrage in relatively cost-effective jurisdictions, like India or the Philippines.

> "In the last few years we have seen organizations once again turning toward external companies to operate key portions of their business. Mining and metals companies are looking to create contracts around a range of areas, including tax compliance services, data management to enable AI and ESG reporting, applications management and modernization, supply chain management, maintenance, systems implementation, and cyber services, to name a few."

Tim Boehm, principal, Global Operate leader, Energy Resources & Industrials, Deloitte Consulting LLP

The cyclical nature of mining and metals means that these organizations need flexibility and agility to maximize their profitability. TPDMs provide an attractive way to dial certain activities and their output up and down quickly as required by demand or commodity and metals prices, without compromising the quality of work.

Likewise, the fast pace at which technology is moving, particularly in areas like artificial intelligence (AI) and data science, means that building and sustaining capabilities internally in these areas in a way that keeps pace can be difficult and costly. Companies may also be reluctant to invest heavily in creating internal capabilities based on emerging technologies, such as generative AI, before seeing the value they can deliver for their businesses. TPDMs also provide a cost-effective way to test these technologies before investing and embedding them into permanent in-house capabilities.

The challenges of attracting and retaining skilled talent to resource core business functions are well known and something we have explored in detail in trend seven. Hiring and retaining highly skilled employees is one of the greatest challenges facing enterprise leaders today. The 2022 Global Outsourcing Survey from Deloitte US found that 50% of executives see talent acquisition as a leading challenge in meeting their organizations' strategic priorities, and 56% do not feel their organizations have the right mechanisms to retain employees.[3]

By rethinking operating models and outsourcing certain functions or tasks to third parties who have the latest knowledge and capabilities, as well as an organization whose business centers on delivering value in specific areas, mining and metals companies can dedicate more time, people, and resources to their core operations.

TPDM: A new paradigm for outsourcing

Traditional outsourcing efforts focused on cost reduction for simple, discrete tasks that could be automated—for instance, payroll or network administration. With this type of arrangement, the relationship between clients and vendors tended to be transactional in nature.

TPDM services move beyond this, combining cost reduction and discrete value-addition, where vendors support more complex processes, applications, or full business functional areas requiring specialized expertise. These might include hosting/cloud operations, analytics-as-a-service, cyber detect and respond services, or infrastructure support. These relationships are usually longer term and tied to performance service level agreements (SLAs) based on outcomes and volume consumption. Clients are typically given on-demand access to hard-to-source talent, experiences, skills, and leading technology.

Deloitte US recently helped a multinational pharmaceutical company to optimize its supply chain and improve operational efficiency using data-led insights. To do this, the team developed a data modernization strategy and a use case collection and prioritization framework designed to target key business priorities effectively. The result was enhanced supply chain visibility across teams, locations, and systems. More than 20 manufacturing sites and over 400 users were enabled with modernized data. There was also an overall 75% reduction in time required to transform the data into insights at manufacturing sites and an 85% reduction in the manual effort required to extract and consolidate raw data before it could be consumed by the analytics applications.[4]

"We're seeing momentum in mining and metals from clients who are looking for help with insource and outsource business case development. That's leading them to define their hybrid service delivery model, determining which portions of the supply chain they keep onshore, and which portions can be outsourced via TPDMs. These services might include strategic sourcing-as-a-service, contract management-as-a-service or procure to pay-as-a-service, and supplier enablement-as-a-service. Another play, particularly for large mining companies, is managing or consolidating their tail spend (spend that's not covered by contracts) across operations via TPDMs."

Mahendra Dedasaniya, partner, Consulting, Deloitte Canada

TPDMs like these are usually dynamic in scope and the relationship tends to be highly collaborative or viewed as an extension of the organization.[5] In fact, these third-party resources are becoming so important that 87% of respondents from Deloitte's 2022 Global Outsourcing Survey said they consider external workers as part of their own workforce.[6]

The 2023 Global Chief Procurement Officer Survey from Deloitte US also identified the increased use of hybrid delivery models that leverage TPDMs as a key value driver for top-performing procurement teams across businesses globally.[7]

Transforming occupational safety through TPDMs

Deloitte Brazil recently developed its Smart Safety analytics solution in conjunction with Gerdau Acos Longos S.A., the largest producer of long steel in the Americas. Deloitte's knowledge in AI technologies applied together with Gerdau's knowledge in safety management resulted in the development of a predictive e-tool. The solution uses multiple data sources and applies leading-edge AI technology to detect risk factors and trends in each operational area. The result is risk predictability for the next week, automatic identification of critical risks, root causes, and hot topics that allow operators to define and implement preventive actions. Gerdau Acos Longos S.A is now using the solution in Portuguese, English, and Spanish at more than 25 manufacturing plants and five countries.

A tool to stay on top of technology trends

In the mining and metals industry, migration to cloud-based services has been another factor in the uptake of TPDMs. The shift to next-generation enterprise resource planning (ERP) systems, many of which utilize a subscription-based model rather than licensing, is another function that companies are looking to outsource.

> "Each year seems to bring a new technology trend that demands attention. During 2023, it was gen AI, and in 2022, it was blockchain and Web3. Before that, it was the cloud. The move toward TPDMs brings much of this together."

Rob Hillard, Consulting leader, Deloitte Asia Pacific

The move to the cloud offers a way to better leverage company IP and capability. Most recently, this is turning into "industry cloud," an approach that embeds industry-specific intellectual property (IP) (particularly data) directly into the cloud. For this to work well, the expertise must be shared, even if the data is private, which requires a TPDM.

Web3 was about sharing trust without waiting for platforms. The expense and complexity of these solutions has challenged their blockchain-based foundations, but the principles of decentralized trust and embedded value remain important, particularly in supply chain and operations. In this way, shared TPDMs provide platforms that can accelerate opportunities to share and empower supply chains.

> "While mining and metals companies are still early stages of realizing value from gen AI, the technology is again fueled by data, which is best managed centrally through TPDM agreements."

Mahendra Dedasaniya, partner, Consulting, Deloitte Canada

Using TPDMs to get ahead

Amid an increasingly complex business environment, now is an opportune time for mining and metals companies to revisit their sourcing strategies. Traction has mainly been among major miners. However, as competition in the market increases, mid-tier mining companies could leverage these services to gain an edge, and unlock and expedite value realization in an agile way.

From ideas to actions

- **Identify where TPDMs could add value:** Look for business processes that are routinely affected by regulatory change or other new requirements; areas where technology is evolving rapidly, required to keep pace, and outside the core competency of the enterprise; and areas where talent is limited and in high demand, thus making it hard for the enterprise to compete for resources. The key is to identify functions where a combination of capabilities and teaming with key stakeholders and solutions could allow a third-party provider to deliver distinctive value.
- **Find the right TPDM providers:** Consider providers who offer access to and experience working with an ecosystem of vendors at the leading edge of technology disruption and who can bring purpose-built solutions. Those who are familiar with the latest industry regulations and have a track record of supporting organizations in your specific geography or industry could also prove beneficial. For organizations with international operations, seek TPDM providers that have the critical mass to support the areas in which the organization does business, whether the ambitions include an onshore, nearshore, offshore, or hybrid operational model.
- **Move beyond vendor management:** Aligning multiple vendors to a single objective can be challenging and time-consuming. This is underscored by the need for end-to-end talent and service integration, cyber control over the extended enterprise ecosystem, and a single source of reliable data. In this new environment, vendor management capability must evolve from traditional procurement-oriented vendor management to a strategic ecosystem management approach. Consider engaging one or more TPDM providers to focus on a critical goal and provide incentives that align with achievement of the goal. Given the longer-term nature of managed services, the relationship should have the ability to adjust to increasing or changing goals.
- **Interlock business ecosystems with TPDMs:** Building standard capabilities to manage a holistic network of vendors that is fully aligned to information technology (IT) or business strategy is vital. Ensure that each vendor fits the business's culture and vision, understands the organization, and provides innovative thought leadership to realize maximum potential through collaboration.
- **Service level agreements are necessary, but not sufficient:** When the goal is highly integrated teams working as one, service level agreements (SLA) set the baseline, but cannot reliably ensure peak outcomes. To unlock the most value from these teams, organizations must go beyond SLAs and create true relationships with vendors based on mutual trust and transparency that yields innovative thinking and mutually beneficial outcomes. Traditional penalties for SLA violations can be combined with incentives for continuous innovation to achieve this. Establishing a collaboration culture should be a priority at the beginning of a relationship and reinforced throughout.

Endnotes

1. Juan Coronado and Mike Stoler, *Deloitte Global Outsourcing Survey 2022*, Deloitte, 2022.
2. Ibid.
3. Thashnee Spieker, "Next-generation managed services: Resourcing with agility," Deloitte, accessed 15 November 2023.
4. Deloitte, "Helping a global biopharmaceutical organization optimize their supply chain through data insights," 2023.
5. Coronado and Stoler, *Deloitte Global Outsourcing Survey 2022*.
6. Spieker, "Next-generation managed services: Resourcing with agility."
7. Aaron Addicoat, *2023 Global Chief Procurement Officer (CPO) Survey*, Deloitte, 2023.

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Trend 10: Third party delivery models—Gaining agility and competitive advantage through next-gen approaches to outsourcing

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