

Inquiry into how the mining sector can support businesses in regional economies

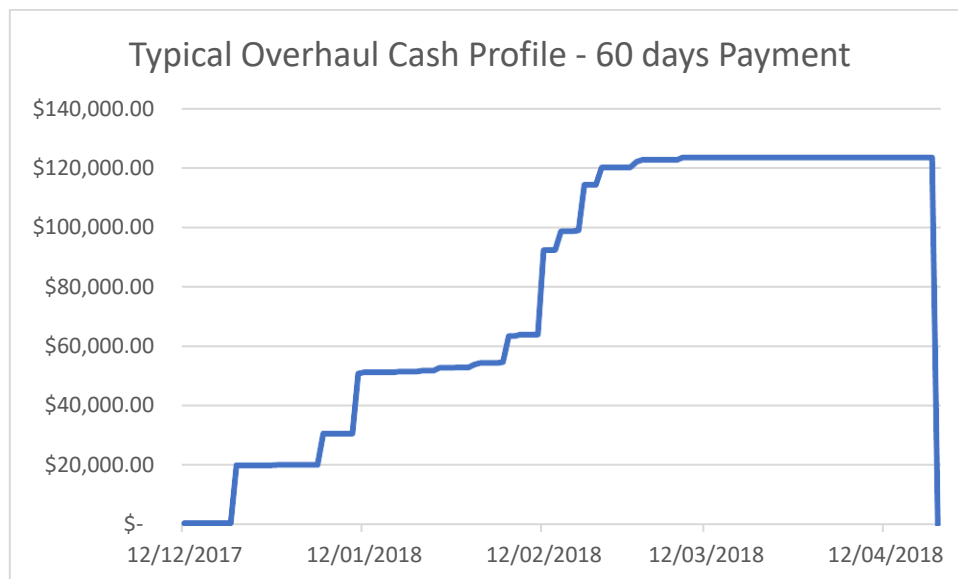
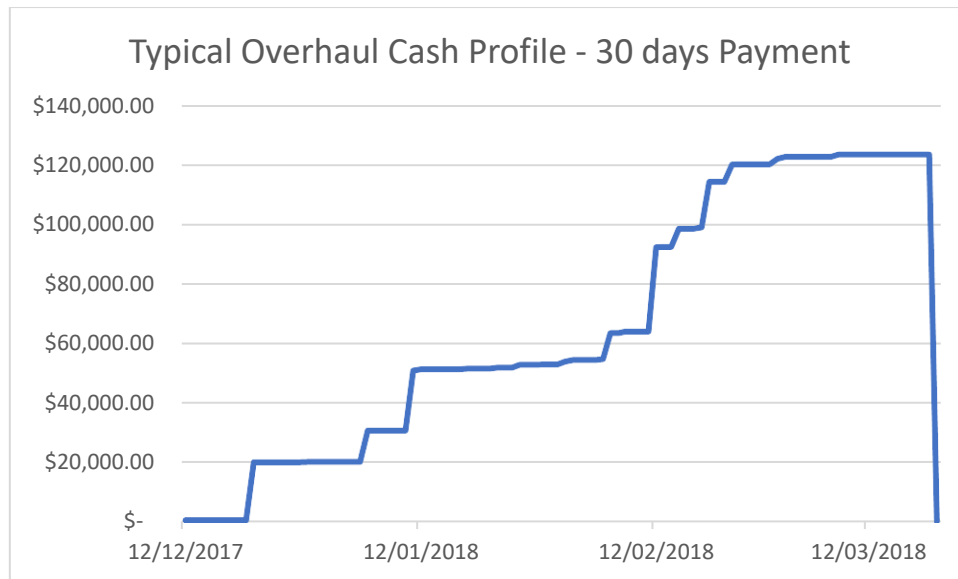
My response to the appropriateness of the payment terms is the same as all the tough questions in my business. Is it fair? If it is not fair, and there is a winner and loser, then the relationship / partnership is destined to fail. The action causes a reaction, and in this instance if the cost of business increases and these costs cannot be passed on, the supplier suffers as margins are eroded, businesses close and competition reduces.

In an environment where leverage is used by these large companies to force their supply chain to expose their costings, profitability, and almost dictate what they deem to be appropriate levels of profitability then, in my view, the current relationships and trading terms are not fair.

Again, in my view, the change in payment terms from 30 to 60 days is a one-off cash injection for the mining houses and an instant doubling of the working capital required for my business.

While many of the mining houses in the region significantly contribute to the communities in the people that they employ locally, the business it stimulates and the donations and sponsorships that is enjoyed by all in the regions. It is important to recognise the significant role the supply chain has in the sector. We train the apprentices with real skills, we are there to assist them when there is breakdown or urgent works required to ensure production.

In my business we are asked to strip, report and quote on products before receiving a purchase order with monetary value. This process takes usually 2-3 weeks and during this time we are accruing costs on this job and paying staff. The quotation process can take anywhere between 1 day to 6 weeks to be confirmed. The repair job can then take up to 12 weeks from the approved order. Please see below a graph depicting the impact to cash from a change from 30 to 60 days a typical purchase order job.



The interest and bank fees associated in funding these payment term changes far outweigh the costs of a graduate engineer that could be working on innovation in my business. The only current winners are the banks in my view.

The barriers to greater use of the regional businesses is the working capital and labour skills the nature of this industries requirements and cash costs of business are significant making the risk reward equation unattractive to many. The turn on, turn off nature of the support that is required making commitments to permanent positions extremely challenging further promoting

the trend to a casual work force and effects the quality of training being passed on to our apprentices.

Reducing the burden on cash, reduces the cost of the cash and frees up the business for growth, continuous improvement opportunities and research & development for which the mining houses are to reap the long-term benefits.

The current trend to rely on component replacement as cheap replacement parts are sort from offshore with a use once, throw away mentality. This will continue to increase stock holdings by the end user and will only provide education on component change out to maintenance employees further reducing the skills base in the region.

The R&D Tax Incentive I believe to be a good one, it still requires cashflow throughout the year as the funding is in arrears. My suggestion on how to assist business in the R&D is to identify the businesses that are doing innovation in this space, encourage them by consistent rulings around the R&D Tax Incentive, assist them by getting involved in the process and communicate how the government can do more, rather than policing like all are doing the wrong thing. I believe this is a deterrent of some companies to get involved in the R&D process.

Thanks for reading.