

Supplier Summit 2018

Procurement Breakout Session



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Procurement Breakout Session: Total Cost Of Ownership (TCO)



Global Supply Chain Commodity Management



GLOBAL SUPPLY CHAIN STRATEGY

Provide the best "Total Cost of Ownership"

- By managing price negotiations,
- Utilizing should cost analysis and market indices
- Partnering with Suppliers for solutions & continuous improvement



Hourglass Supply Model

GLOBAL SUPPLY CHAIN HOURGLASS MODEL



Progression of partnerships

Where are you on this chart?

What does it take to make a partnership work?

- Transparency
- Communication
- Mutual Trust
- Commitments
- Forecasting
- Continuous improvement




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**Procurement Breakout Session:
Tariffs: Managing the Costs**

Daniel Paling



Tariffs – Managing the ever changing world



Tariffs are creating a ripple effect around the world
We are seeing ever changing market conditions in multiple regions

How we are managing & what we need to know

FREEPORT-McMoRAN International Purchase Form

Directions for International Purchases

- All international purchases must complete this form

Unless otherwise approved – international impacted tariffed items should have the supplier as importer of record

- This form must be reviewed and approved by leadership based on approval thresholds
- This form must be uploaded into Share Point Library and attached in SAP PO

Information required

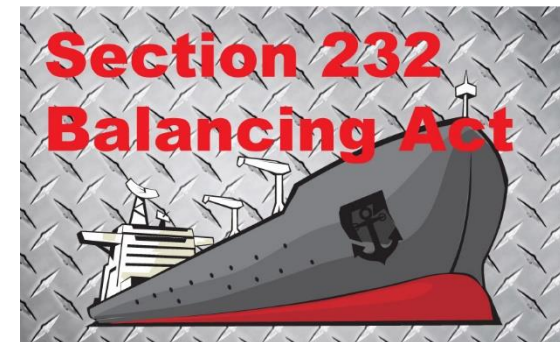
PO# and Impacted FCX Operation:

Country of Origin:

HTS Code: Code must be at least 8 digits

Description of the Good(s):

Estimated value of the tariff:



How are you managing your impact?

- Which countries imports are you impacted by?
- What are you doing to mitigate the risk?
- What are other customers doing to manage tariffs?
- Transparency is key!
- Don't wait – Communicate 😊



WE ARE IN THIS TOGETHER!!!

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**Procurement Breakout Session:
Material Preservation**

Brian Buttram



Project Overview

- **Project objective is to prevent damage and deterioration to stored materials by ensuring proper preservation techniques**

- **Business Justification**
 - **Protect the company's significant inventory investment**
 - **Mitigate the risk of lost revenue from downtime**

- **Key Deliverables**
 - **Preservation standards training for warehouse personnel**
 - **Requirements captured in SAP for entire catalog**
 - **Process implemented to verify proper preservation techniques**
 - **Field verification and correction of critical/high value materials**
 - **Procurement process to capture requirements for new materials**

How can you help us?

- **Provide proper preservation information at quotation along with weights and dimensions**
- **Inform Buyers in advance of unique or specialized requirements**
- **Ensure materials are properly packaged and preserved for potential long term storage**
- **Consideration for warehouse receiving process**
- **Discuss opportunities to help us maintain materials long term**
- **Participate in root cause analysis of failures; knowledge sharing**

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**Procurement Breakout Session:
Scorecard and KPI Management**

Dan Christensen



Supplier Scorecard

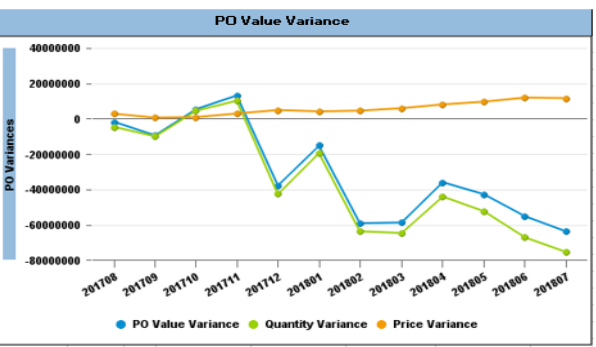
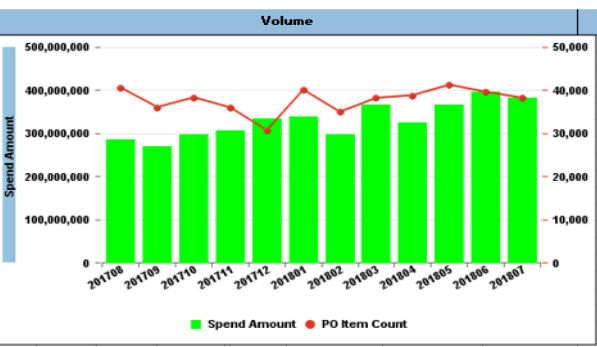
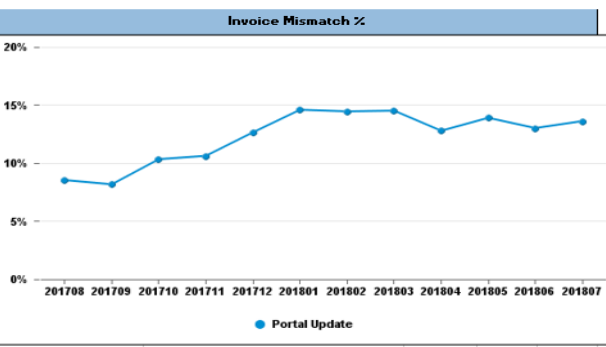
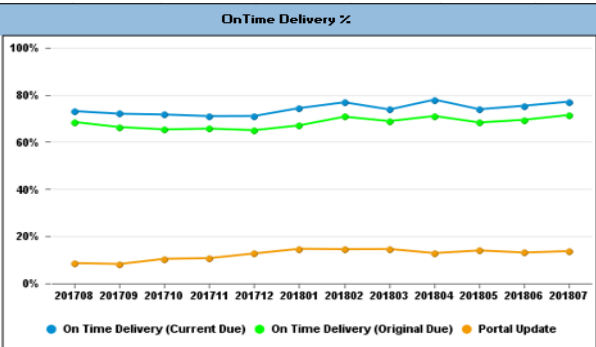
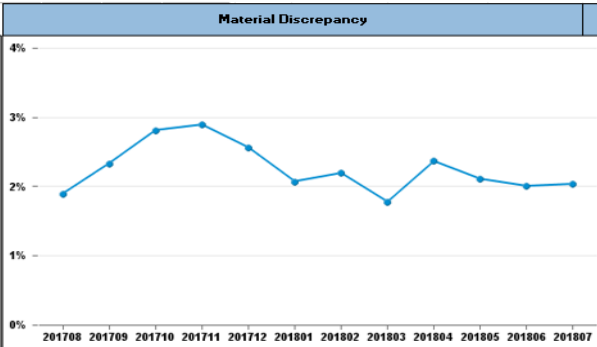
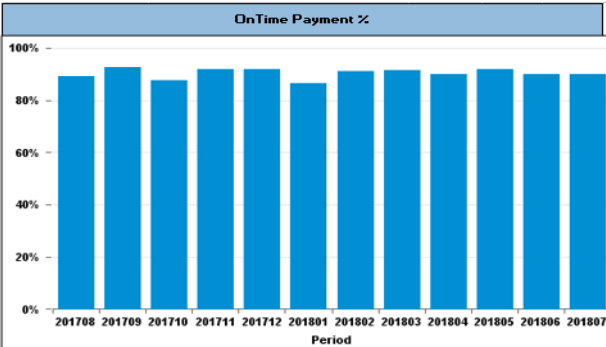
VENDOR SCORECARD - GOODS

Item	Description	Weight %	A	B	C	D	F	Your Score (Last 3 months)
OT Payment	Paid Otime	5%	98%	95%	90%	85%	<85%	C
Material Discrepanc	% of line items	10%	2%	3%	4%	5%	>5%	B
On Time Delivery - Original	% of line items	10%	>86%	80%	70%	60%	<60%	D
On Time Delivery - Current	% of line items	30%	>86%	80%	70%	60%	<60%	C
Invoice Mismatch	% of items that did not match properly to PO	10%	0.5%	1.5%	3%	4%	>4%	A
Supplier Portal Changes	% changes per "late" deliveries % of IUS that have pending Invoices	5%	2%	3%	4%	5%	>5%	F
MRNI Survey	Questionnaire	10%	5	4	3	2	1	A
Cumulative		100%						C

Vendor: ALL
 Scorecard D: 2018-08-27
 Reviewed By:
 Supplier Con:

Grade - Last 12 Months
C

Year	Credit Memo	Direct Charge	Direct Charge Service Order	Inventory Consigned	Inventory Owned - NON OA	Inventory Owned - OA	NOI	Sub-contracting	Total
2018	*****	*****	*****	*****	*****	*****	*****	*****	*****
2017	*****	*****	*****	*****	*****	*****	*****	*****	*****
2016	*****	*****	*****	*****	*****	*****	*****	*****	*****
2015	*****	*****	*****	*****	*****	*****	*****	*****	*****
2014	*****	*****	*****	*****	*****	*****	*****	*****	*****



Supplier Scorecard

Item	Description	Weight %	A	B	C	D	F	Score (Last 3 months)
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Material Discrepancy	% of line items	10%	2%	3%	4%	5%	>5%	B
On Time Delivery – Original	% of line items	10%	>86%	80%	70%	60%	<60%	D
On Time Delivery – Current	% of line items	30%	>86%	80%	70%	60%	<60%	C
Invoice Mismatch	% of line items	15%	0.5%	1.5%	3%	4%	>4%	A
Supplier Portal Changes	% changes made for late deliveries	5%	>80%	60%	40%	20%	<20%	F
MRNI	% of line items received but not invoiced	10%	0%	1%	2%	3%	>3%	F
Survey	Questionnaire	15%	5	4	3	2	1	A
Cumulative		100%						C

Supplier Scorecard

- **On Time Payment (5%)**
 - Three way match (PO, Receipt, Invoice)
- **Material Discrepancy (10%)**
 - Delivery Issues, PO issues, Material issues
- **On Time Delivery – Original Due Date (10%)**
 - Date stated on original PO
- **On Time Delivery – Current Due Date (30%)**
 - Date stated on PO at time of item receipt
- **Supplier Portal Updates (5%)**
 - Percentage of delivery dates updated for past due items
- **Invoice Mismatch (15%)**
 - Price or quantity mismatch
- **MRNI (10%)**
 - Material line items received but not invoiced (30 day buffer)
- **Survey (15%)**
 - Technical support, order support, product quality, site visits

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**Procurement Breakout Session:
Bulks Management**

Morgan Johnson, Tom Knudsen, Scott Valentine



Bulks Management – Who are We?

- **Morgan Johnson, Global Supply Chain,**
 - **Manager, Strategic Commodity: Processing**

- **Tom Knudsen, Global Supply Chain,**
 - **Manager - Commodity: Fuel & Natural Gas Supply**

- **Scott Valentine, Global Supply Chain,**
 - **Process Leader, Supply Chain: Transportation**

Bulks Management – Supply Chain Challenges

- **Table Top Exercise – Worst Case Scenario Review**
 - **Issues Arising?**
 - **Examples?**
 - **Solutions?**

- **Example: Fuel - Potential Supply Shortages**
 - **100 Year Flood / Hurricane (Houston, TX - Fall 2017)**
 - **Refinery Turnarounds (Southwest - Fall, 2017)**

Bulks Management Strategy

■ Past:

- Minimal internal review
- Reliance on supplier
- Little/no visibility

■ Present:

- Transparency and proactive communication
- *Anticipate and Align* (internal & external)
- Internal expectation:
 - Shared knowledge of storage capacity, consumption, process, projects, and inventory levels
- External expectation:
 - Shared knowledge of production, inventory, in transit, production planning, and industry expertise



Bulks Management – Bulk Transport Resources

- **FMI GSC Transportation Group**
 - **Manages tens of thousands of rail and truck shipments yearly for various commodities including copper concentrate and sulfuric acid, beginning to provide assistance on other inbound bulk commodities**
- **Various Long Term Partners to Reduce Risk**
 - **Multiple Class 1 railroads**
 - **Various trucking companies with various assets**
- **Recent Inbound Bulk Success Stories**
 - **Assisted bulk supplier in securing railcar supply through Union Pacific for inbound bulks to Sierrita**
 - **Developed various daily reporting tools for inbound inventory management with both bulk trucks and railroads for Miami and Morenci**

Bulks Management – Process Improvement

- **What could FCX be doing better?**
- **What can your firm bring to the table to improve FMC bulks management?**
- **Technological improvements?**
- **How do you manage your own bulks?**



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**Procurement Breakout Session:
Market Intelligence: Understanding Your Own Supply Chain
Jason Bowsher & Alvaro Meneses**



Fulfilling the Value Proposition

- **What is the definition of *Value Proposition*?**
 - *'A promise of value to be delivered, communicated, and acknowledged. It is also a belief from the Customer about how value will be delivered, experienced, and acquired.'*

- **Primary Drivers in fulfilling the Value Proposition:**
 - **Transactional Value (Execution)**
 - Speed, Cost, and Delivery
 - **Strategic Value**
 - Alignment of Goals & Objectives, and Corporate Values
 - Anticipation
 - Communication

Market Intelligence

- **What is Market Intelligence?**
- **Do we see any difference between Market and Business Intelligence?**
- **How are you monitoring your own Market Intelligence?**
- **How are you communicating your market changes with FCX?**
- **How can we (you and us) benefit of sharing common market intelligence?**

Understanding Your Supply Chain

- **What steps do you take with your own supply chain to ensure best value to your Customers?**
- **Are you aware of and monitoring your suppliers Sustainability programs (Environmental, Human rights, etc)?**
- **How formal are your contingency plans? Have been tested?**
- **Is there any collaboration opportunity beyond the status-quo to make your proposal more competitive, and therefore keep your customer competitive?**

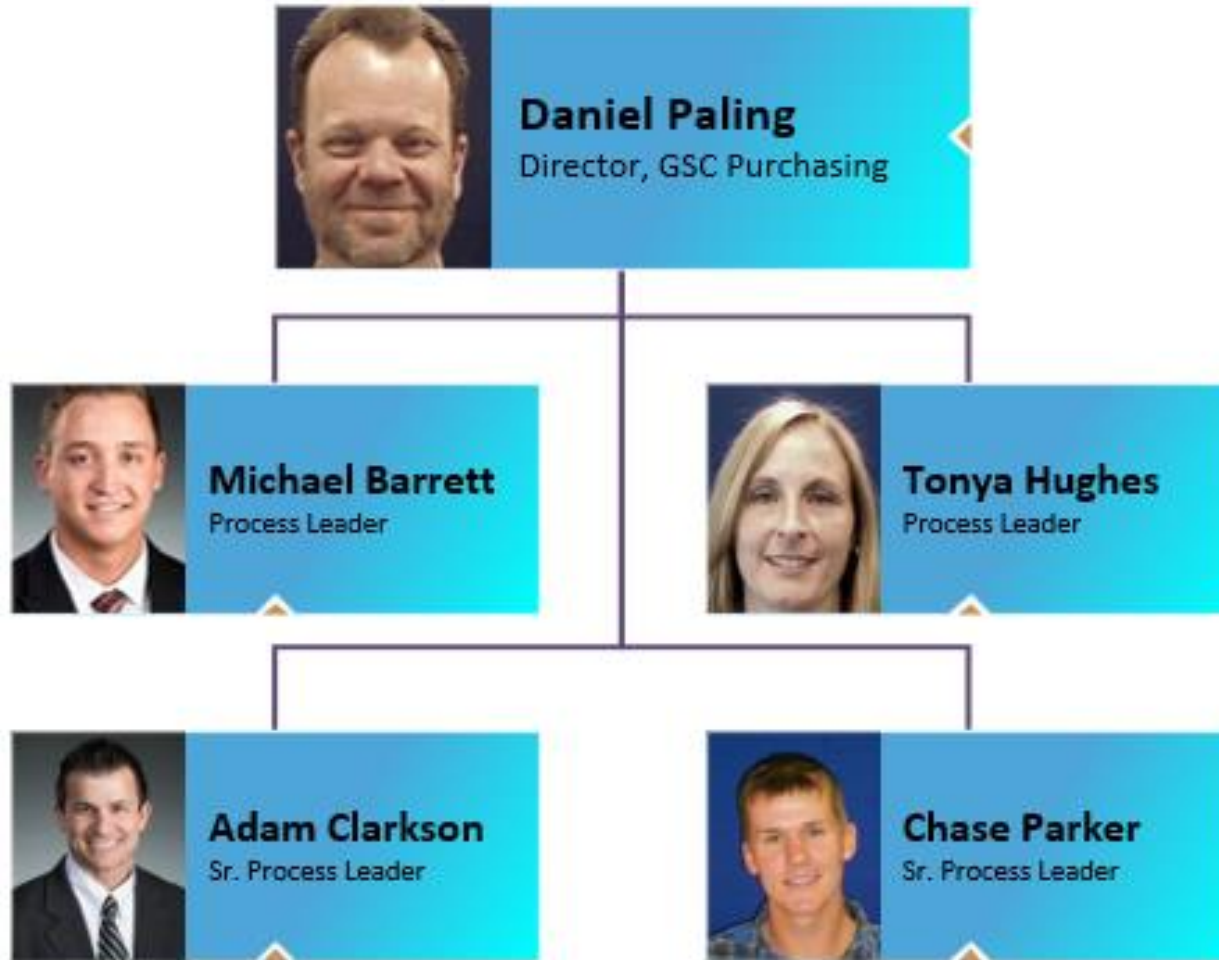
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**Procurement Breakout Session:
Outline Agreements**

Daniel Paling / Adam Clarkson



FCX Procurement Team



Outline Agreements

■ Outline Agreements (OA's)

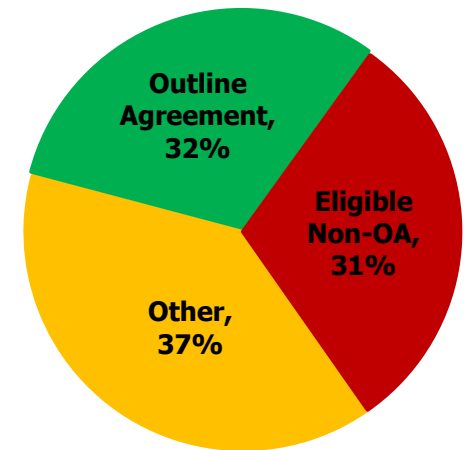
• Purchasing Arrangements that Establish:

- Preferred Vendor
- Price
- Lead time
- Shipping terms

• Purpose and Value

- Streamline the Procurement Process
- Focused Consumption
- Leveraged Spend

North American Transactions
(July '18)



Outline Agreements

- **Item Qualification**
 - Catalogued Items
 - Routine Purchase Processes Meeting Certain Criteria
- **Vendor Qualification**
 - Consistent On-time Delivery
 - Willingness to Partner on
 - Pricing
 - Inventory Management
 - Improved Lead Times
 - Continual Improvement

Outline Agreement Volumes – July '18

OA Impact	North America	South America	Summit Attendees
Outline Agreements	203	219	21
OA Line Items	55,660	53,362	32,196
July Line Items	8,836	3,375	3,341
July Spend	\$15.4mm	\$41.6mm	\$9.2mm

Lead Time

Definition: The number of days that pass from the transmittal of a purchase order until system receipt at the customer's property, under normal circumstances

- **Impacts to FCX Business**
 - **Meeting Operational Needs**
 - Delayed parts mean delayed projects or maintenance
 - Delays to operations can cost as much as \$300k per hour.
 - **Inventory Levels**
 - Increased Lead Times require additional stock on hand
 - True partners help bear the burden of inventory management.
 - **Lean Supply Chain**
 - Decreased Lead Times is money saved

OA Strategy

■ OA Expansion

- Cataloguing Initiative
- OA Line Item Inclusion
- OA Line Item Automation

■ OA Consolidation

- More Business to High-Value Suppliers
 - Competitive pricing
 - Consistent on-time delivery
 - Excellent customer service
- Streamline FMI's supplier portfolio

■ OA Supplier Management

- Collaboration
- Accountability

■ Material Groups for Consolidation – Top 3

Material Group Description	Material Group Code	Vendor Count	Percentage Decrease	Recommendation
E&I Supplies	Z-59EI	89	94.38%	Consolidate to top five suppliers
Fasteners	Z-52FA	70	92.86%	Consolidate to top five suppliers
Hand Tools	Z-51HT	51	80.39%	Consolidate to top ten suppliers

■ Suppliers for Consolidation – Top 3

Vendor Name	Agreement Number	Lead Time Change	Cost Savings %	Annual Savings	Opportunity Level
Paling Production	4900001192	27.69%	40.59%	\$ 142,760.46	2
Clarkson Components	4900000838	25.76%	6.49%	\$ 5,495.00	3
Tonya's Technologies	4900000992	8.09%	31.34%	\$ 18,090.92	1

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**Procurement Breakout Session:
Site Access & Operations Engagement
Mona Ogas & Gary Rogers**



Site Access: Engage GSC

GSC is responsible for initiating & maintaining effective & professional relationships with suppliers. That includes your access and activities while on our property

Confirmed appointments are required. Cold calls to GSC or Operations personnel will not be accepted

Contractor Badging
This continues to be rolled out across the operations thru the rest of this year

Keep GSC Informed of scheduled appointments. Keep them in the loop regarding your activities while on site, as they may need to talk with you

If you do not know who the appropriate technical resource is, ask your GSC rep to advise you. They can facilitate the introduction and subsequent meeting if that becomes necessary.

Interactions with Operations: Keep GSC in the Loop

If you've been asked to respond to a request for information, budgetary numbers, etc., by someone within operations, be sure to include your GSC representative in your response

Ensure that your site visits are specific and meaningful. They should not simply be a time for howdys and handshakes

Avoid "backdoor selling". The introduction of new technology, equipment/software/process, etc., must now go through the CARS Test/Trial process, requiring GSC involvement from the outset

Remember, only authorized personnel, i.e., GSC Agents, to whom authority has specifically been delegated by the VP of Supply Chain can procure goods and services.

POWERED
BY COPPER



**Thank you for
all you do for FCX**

**We are grateful to
have partners like
you!**

