INFRA & CAPITAL PROJECTS BY ALVAREZ & MARSAL

The Execution Advantage Series | Africa Metals & Mining

Cost Management in Mining Is a Core Capability, Not Just a Finance Exercise

Point of View | No. 2

Across mining and metals, cost has stopped moving in cycles and settled into a standing pressure, and in Africa the squeeze is sharper still. Yet cost programmes still tend to live in finance, run periodically and at a distance from the operation. This article looks at why that approach no longer holds, and what the strongest operators build into the way they run every day.

Key Takeaways:

- For African miners, cost pressure is now structural, not cyclical: electricity tariffs for large users are up more than 900% in South Africa since 2008, wage settlements keep running ahead of inflation, and mining carries high fixed costs.
- Cost control cannot work as a periodic finance exercise. It holds only when it is built into the day-to-day management operating system.
- Most cost systems measure too late: by the time month-end reporting flags a problem, the decisions that caused them have already been made.
- Tighter budgets do not create cost discipline on their own. Without operational ownership of cost management, budgets themselves create inefficiencies.
- Operational instability is itself a major cost driver so reliability and cost work together, because unplanned downtime, rework, and emergency procurement cost more than a disciplined operation.
- Lasting cost performance comes down to culture and capability. It holds because cost ownership is built into daily routines and outlives any single cost-cutting drive.

+900%[1]

rise in electricity tariffs for large users since 2008

~30% NERSA

approved Eskom tariff increases, FY2026 to FY2028

Above CPI

multi-year wage settlements, year after year

High Fixed Cost

in deep-level mining and processing

[1] Minerals Council South Africa, Facts and Figures 2025 (Minerals Council South Africa, 2026).

Africa's cost base has shifted structurally, not cyclically. South Africa, the continent's largest mining economy shows how far and how fast. The question for operators is no longer how to cut costs in a downturn, but how to build cost discipline into the way the operation runs every day.

Commodity volatility, inflation, supply chain disruption, and increasing capital intensity are forcing organisations to operate in a far more disciplined environment than in previous commodity cycles. In South Africa the squeeze is sharper still: electricity tariffs for large users have risen by more than 900% since 2008, and wage settlements keep running ahead of inflation.[2] At the same time, many businesses are managing ageing infrastructure, operational complexity, and growing stakeholder expectations around capital efficiency and returns.

In this environment, traditional approaches to cost management are proving insufficient. At Alvarez & Marsal, we believe the organisations that outperform over the next decade will be those that build cost discipline into the way the business operates every day, not simply those that cut costs fastest.

Isolated cost-cutting programmes do not deliver sustainable cost performance on their own. That comes from proper budgeting, execution discipline, cost visibility, and accountability embedded throughout the organisation.

The Cost Environment in Mining Has Changed

Over the last several years, industrial sectors have experienced significant swings in commodity prices, inflation, and input costs.

Historically, many organisations managed these cycles through short-term cost reduction initiatives, hiring freezes or reactive budget controls, but today's operating environment is different.

Many businesses are now facing structurally higher operating costs, more volatile demand cycles, tighter capital markets, and increasing maintenance requirements, while still being expected to deliver consistent shareholder returns across cycles.

The trajectory: The pressure keeps building. NERSA has approved Eskom tariff increases of 12.74%, 8.76%, and 8.83% for FY2026 to FY2028, about 30% cumulative, revised upward from the approximately 25% originally approved after NERSA conceded errors in its determination.[3]

Cost control can no longer function as a periodic finance exercise. It needs to be built into the management operating system.

[2] Minerals Council South Africa, Facts and Figures 2025 (Minerals Council South Africa, 2026)-

[3] The 8.76% increase applies to customers supplied directly by Eskom, effective 1 April 2026; municipal bulk purchasers pay 9.01% from 1 July 2026. Large industrial and mining users buy directly from Eskom, so the direct-customer rate applies here. Sources: Minerals Council South Africa, Facts and Figures 2025, p.29, for the originally approved ~25% path and its subsequent revision; and NERSA, Media Statement: NERSA Approves the Eskom Retail Tariffs and Structural Adjustment Application for the 2026/27 Financial Year, 10 March 2026 (decision of 5 March 2026), for the 8.76% and 8.83% adjustments.

Most Cost Systems Measure Too Late

One of the most common challenges in industrial organisations is that cost visibility lags the operation.

Many companies still rely heavily on multiple ERP instances and disconnected spreadsheets, fragmented data, and monthly reporting cycles where financial reviews occur long after costs have already been incurred.

By the time leadership identifies a problem, operational behaviour has often already moved in the wrong direction, and it is too late to recover for that period. This creates reactive management rather than proactive control.

As highlighted in Alvarez & Marsal's cost management framework, effective cost management requires far more than budget tracking alone. It requires integrated planning, forecasting, operational cost reviews, and continuous cost-saving identification built directly into the management operating system.

Integrated Planning | Forecasting | Operational cost reviews | Continuous cost-saving Identification

↓

Built into the management operating system

↓

Enabled by real-time cost visibility, operational ownership and leadership discipline

The elements of A&M's cost management framework, built into the management operating system.

In practice, organisations that manage costs well tend to create real-time operational visibility, not just month-end financial reporting.

Budgeting Alone Does Not Create Cost Discipline

Another recurring issue in industrial businesses is the assumption that tighter budgets automatically create stronger cost performance. In reality, many budgeting processes unintentionally reinforce weak cost management behaviours.

Examples include budgets built primarily on inflation assumptions, disconnected operational and financial planning, and limited operational ownership of costs.

As a result, budgeting often becomes a financial exercise rather than an operational one. This is why more organisations are shifting towards activity-based or zero-based approaches to budgeting and operational planning.

Rather than asking: "What did we spend last year?"

Leading organisations ask: "What operational activities are required to deliver the plan, and what should those activities realistically cost?"

This distinction matters.

Making Operational Cost Drivers Visible

One of the biggest opportunities in industrial cost management is improving visibility into the key drivers of cost. Many organisations can see high-level spend categories, but far fewer can clearly identify which operational behaviours are driving those costs, where inefficiencies originate or how operational instability compounds financial performance over time.

This is where integrated operational and financial management becomes critical. The strongest organisations connect operational planning, maintenance execution, procurement, workforce deployment, and production performance into one management system, which lets leaders move from retrospective cost analysis towards proactive operational decision-making.

Cost Reviews Often Fail Without Ownership

Another common challenge is that cost review processes frequently become administrative reporting exercises with limited accountability: many organisations hold monthly meetings where teams review variances, but few operational decisions actually change as a result, and individuals are not held accountable for these variations.

The underlying issue is often not reporting quality alone. It is ownership. Effective cost management requires operational leaders to understand the drivers of cost, the consequences of decisions, and the trade-offs between cost, reliability, and performance. These costs need to be visible, and leaders need to be held accountable for their expenditure. Without this, organisations create finance-led reporting structures that teams on the ground see as disconnected from the operation, and the result is limited engagement and weak execution.

Digital Cost Visibility Is Becoming Essential

As operations grow more complex, digital cost visibility becomes harder to do without.

Organisations are generating large volumes of operational and financial data, but many still struggle to convert that information into actionable insight. This is particularly true in asset-intensive industries, like mining, where maintenance costs, shutdown performance, contractor spend, procurement decisions, and operational delays can rapidly influence profitability.

Leading organisations are investing in integrated cost visibility platforms that provide real-time performance tracking, operational cost transparency and decision support at every organisational level. Importantly, the value is not in the technology itself but in enabling faster and better operational decisions.

Cost Culture Matters More Than Cost Programmes

Perhaps the most overlooked aspect of industrial cost management is culture. Organisations often launch large cost reduction programmes but fail to embed the behaviours required to sustain them. Over time, costs return.

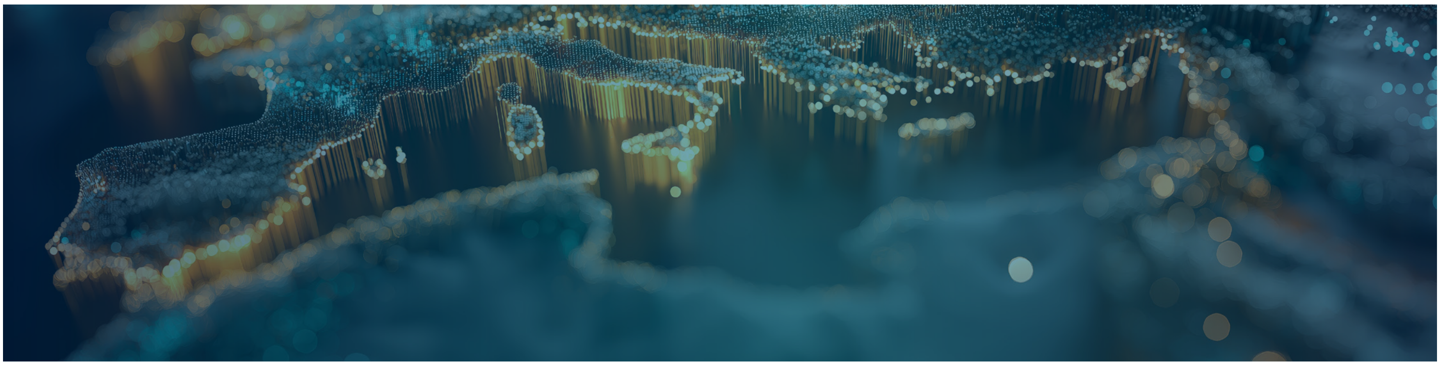
This is because sustainable cost performance requires operational ownership, leadership discipline, fact-based decision-making, continuous review routines, and accountability embedded into everyday operations.

In practice, the organisations that sustain improvements are those where teams understand cost drivers, leaders actively review performance and hold individuals to account, and improvement opportunities surface continuously, not only during formal budget cycles. Cost discipline therefore becomes part of the operating culture, not a temporary initiative.

The Link Between Reliability and Cost in Mining

One of the biggest misconceptions in heavy industry is that reliability and cost reduction compete against each other. In reality, operational instability is often one of the largest drivers of cost: unplanned downtime, maintenance rework, emergency procurement, and operational variability create far higher long-term costs than disciplined, reliability-focused operations.

The best operators recognise that reliability, maintenance quality, workforce capability, and cost performance are deeply interconnected, which is why operational excellence and cost management cannot be separated.



The A&M Perspective

In Africa’s resource and infrastructure opportunity, the constraint is rarely ambition or capital. It is execution, and cost discipline is one of the places that decides it.

At Alvarez & Marsal, we see cost control not as a financial process but as an operational capability. The organisations that outperform through commodity cycles run on real-time cost visibility and disciplined management routines; they forecast with more confidence, and ownership of cost sits on the front line rather than in the finance function.

This rarely comes from one-time initiatives. It comes from daily discipline that keeps cost visible and keeps decisions grounded in fact, well after the initial push fades. In the end, cost performance reflects how well the operation is run. That is also why cost management in mining and safety performance rest on the same foundation.

We work with mining and asset-intensive companies to build cost discipline into the way operations run, from budgeting, forecasting, and cost visibility through to frontline ownership and execution. To discuss how these ideas apply to your operations, contact us.

Coming next in this series:
why critical controls are not the problem in mining safety, and execution is.

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