

supplychainforesight

2008

*Supply chain complexity and
a company's ability to manage
it, is directly correlated to
its success in the marketplace.*

Academic Partner



Survey conceptualised and initiated by



Barloworld
Logistics

Introduction

The **supplychainforesight** report for 2008 seeks to demonstrate clearly and decisively what we have been arguing for five years now: that there is a significant correlation between supply chain reform and business success on many fronts, including both growth and profitability.

One of the goals of **supplychainforesight** as a piece of industry research has always been to provide an essential trends and benchmarking service for the South African supply chain and logistics industry. But we have also sought to analyse the SA industry in the context of the various industry sectors that it serves, and to position SA's supply chain performance in the context of a rapidly expanding globalised economy. We have achieved these goals over the years by getting qualitative input from senior executives, predominantly those in large SA businesses, and by putting these viewpoints of business leadership in the context of an assessment of the comparative place of SA's supply chains in global trade flows.

This latter aspect of globalisation is something we concentrated on particularly in last year's study, where we found that South African businesses were searching for ways to deal with both the increased volumes and complexities of their supply chains, and were beginning to seriously re-evaluate the nature of their supplier and customer relationships in order to cope with the challenges presented by rapid and compound growth on the one hand and globalisation on the other.

Introduction

Because of this finding, we have extended the focus that **supplychainforesight** has placed on globalisation and strategic supply chain reform in the 2008 study. Another key aspect for last year's research was the changing nature of relationships between different supply chain role players, in a large part brought about by the pressures placed upon organisations by globalisation. This approach yielded insight into the different pressures that drive supply chain reform amongst, for example, retailers, manufacturers and raw material suppliers.

In this year's research study we have again taken up the challenge of globalisation, and have sought to fill a knowledge gap left by other major international research studies into supply chains worldwide. A key aspect of achieving this is finding the answer to the question: are South African companies who respond to the challenges of globalisation through strategic supply chain reform more successful than those who do not?

supplychainforesight 2008 demonstrates clearly that there is a strong and positive correlation between supply chain reform and business success.

Correlating Supply Chain Reform and Business Success

In 2003 Deloitte produced a report in their series The Global Benchmark Study, entitled "Mastering Complexity in Global Manufacturing: Powering Profits and Growth through Value Chain Synchronization". The report shows that 'companies seeking to exploit global market, supply chain and engineering opportunities are hitting an invisible but nonetheless debilitating wall: mounting complexity across the value chain. And, it is bound to get worse.'

This was certainly true for the SA companies we surveyed in 2007. The Deloitte report also points out that the rapid spread of globalisation through the simultaneous effects of economic growth and the maturation and penetration of information technology has resulted in increasing difficulties in coordinating key business activities. Now, product engineering, sourcing, manufacturing, logistics and marketing and sales activities are more and more scattered across the globe.

Deloitte coined the term 'complexity masters' for the small group of companies – 7 percent of their sample group – who have overcome complexity in their value chains by synchronising

customer- product- and supply-chain-related strategies and operations while leveraging strengths in collaboration, flexibility and visibility. In Deloitte's estimation these reforms helped the 'complexity masters' to generate up to 73% higher profits, as well as growth rates that were markedly better than other companies studied.

It is worth pointing out that the Deloitte study focuses on trade between Europe, North America and the Asia Pacific region. Africa as a trading partner and link in the value chain is overlooked. This oversight is put right in a more recent study, conducted by the World Bank in 2007, called 'Connecting to Compete: Trade Logistics in the Global Economy'. As the name suggests, this comprehensive survey of trade logistics in countries from both developed and developing economies attempts to chart logistics performance in terms of ease, cost and reliability of the inbound and outbound supply chains.

Introduction

This World Bank study confirms the expected disparities between developed and developing countries, but points out that costs related to hedging against uncertainty further tilt the logistics balance against developing countries, since such costs characterise country performance in these economies. As the study authors point out 'country performance (in global trade logistics) is largely influenced by the weakest link in the supply chain: poor performance in just one or two areas can have serious repercussions on overall competitiveness... this demands a more integrated, comprehensive approach to reforms all along the supply chain... Countries performing well typically have a comprehensive approach that improves key factors in logistics performance in parallel, while countries with a piecemeal approach tend not to demonstrate lasting improvements.'

South Africa demonstrates its logistics infrastructural capability to facilitate international trade flows by rating 24th out of 150 countries overall for its logistics performance in this prestigious measure.

Taken together, these two studies present a framework for understanding the urgent challenges facing South African supply chains now – on one hand, in the Deloitte study, the need to deal with the tsunami of globalisation and finding competitive advantage in it, and the growth and profitability that are available to companies plotting this route successfully. On the other hand, in the World Bank research, it is evident that the place of South Africa as a successful country in competition with other countries all over the world depends on the success of its value chains and the ability of our public and private sectors to work together to ensure that our

logistics infrastructure and supply chains are re-engineered for global competitiveness.

In the context of these studies too, **supplychainforesight** 2008 provides a specific framework for understanding the link between business success and supply chain innovation in the SA market. It also reflects a private sector view of supply chain capabilities and the means to deal strategically with complexities brought about by globalisation. It thus tests the Deloitte theorem in the value chain context of South Africa's private sector specifically, and points to ways in which the private and public sectors in SA can collaborate to enable more successful supply chains for both.

"South Africa is rated

24th

among 150 countries overall for its logistics performance."

- 'Connecting to Compete' 2007 World Bank Report

A groundswell of executive participation

One hugely encouraging factor for our research this year was the record level of participation. Over 400 senior executives in some of South Africa's largest companies responded to our questionnaire this year, almost double the participation in last year's study. Most of these responses again came from major corporations with global operations, and levels of participation by CEOs and General Managers were also at record levels. This indicates not only the authoritative nature of the outcomes, but the value provided by **supplychainforesight** as a benchmarking and information tool.

Introduction

The Capability and Complexity Question

In order to understand the place of SA companies on the global supply chain competitiveness map, we began our research this year by asking several questions of company leadership and supply chain executives designed to build on and modify the Deloitte approach to the 'complexity masters'. By mapping the co-ordinates of SA businesses on a grid between measures of supply chain capability and the extent of the complexity faced by their supply chains, we have been able to provide a clear answer to the question about the correlation between supply chain reform and company growth and profitability. This kicks off our study this year.

How to Read the Report

The format of this year's report, given our focus on illuminating the correlation between supply chain reform and business success, begins with the findings on this topic. We then go on to analyse general findings from the entire respondent sample. Finally, an extensive section focuses on an increasingly urgent issue for the industry, that of the skills shortage. In the course of the skills discussion we focus on the changing attitudes of companies in different market positions with regard to how they use the skills they have and how they deploy outsourced capabilities, and we focus on how these issues are viewed by business leadership and by supply chain management.

Over
400 *senior managers responded in*
supplychainforesight 2008

– participation of CEO's and general managers was at record levels.

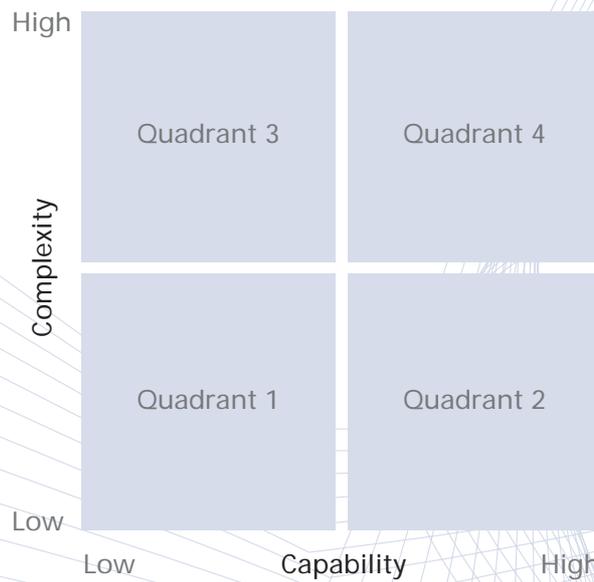
Introduction

In detail, the structure of the report is as follows:

- **Getting to The Fourth Quadrant: Capability and Complexity in SA companies**

This section details the responses of companies to the questions regarding their supply chain capability, and the levels of global supply chain complexity they face. It suggests the characteristics of companies in different quadrants of a grid with capability and complexity as its axes, and maps the success and strategic benefits and challenges of each quadrant. An industry comparison at a high level is also provided.

► Complexity vs Capability



- **Creating Competitive Advantage in a Skills Crisis**

Many industry sectors in SA face potentially crippling shortages of skilled people, and the supply chain industry is no different. The problem might be seen from a different perspective, however, and in this concluding section we revisit the perennial skills dilemma from the point of view of how the industry is addressing it, and how business is using the existing skill sets in the country to help realise their strategic planning. In the course of this discussion we also look at the relative emphasis given to skills and capability improvements by companies in different value chain quadrants, as well as on the differences between business leadership and supply chain management on this issue.

- **Trendwatching: Challenges and Objectives for the South African Supply Chain**

As the name implies, this section deals with the changes and the continuities in executive perception about the shape of current SA supply chains. Where do the strategic challenges and objectives lie, and how are these responding to global and local pressures? How is SA's private sector interacting with the public sector initiatives to improve infrastructure and maintain and develop national competitiveness?

*The report examines the practice of South Africa's
most successful companies
and compares this practice to the norm.*

Getting to the Fourth Quadrant: Capability and Complexity in SA companies.

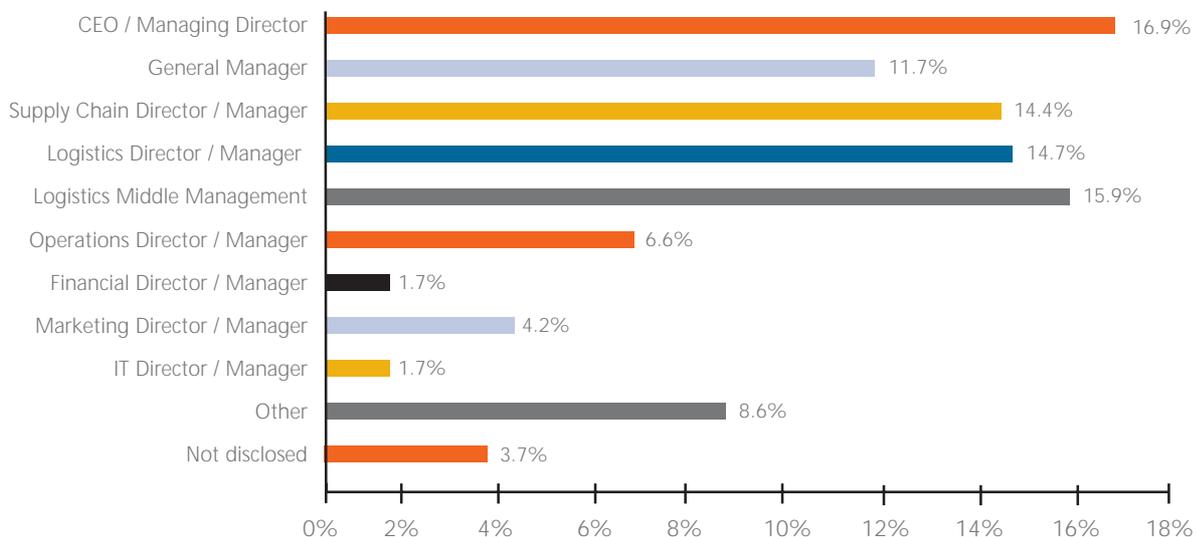
Respondent Profile

Before assessing the capability and complexity grids, it is important to know the quality and profile of respondents the research attracted this year, as a means of validating the findings. In total this year we received 409 responses, in comparison to 230 last year. This massive increase in participation is also reflected in the responses from job functions within companies. The participation of CEOs and General Managers increased to

almost 29% of the sample, up from 18% last year. This increase is in a much larger sample group, which lends much credence to the strategic credibility of the research, and to the validity of our central theorem. There is also a huge increase in the participation of logistics middle management, to 16%, up from 8% last year. This provides for a very good spread of viewpoints across the company supply chain, and balances out strategy with tactical experience.

► Participant profile: Job function

Total Sample



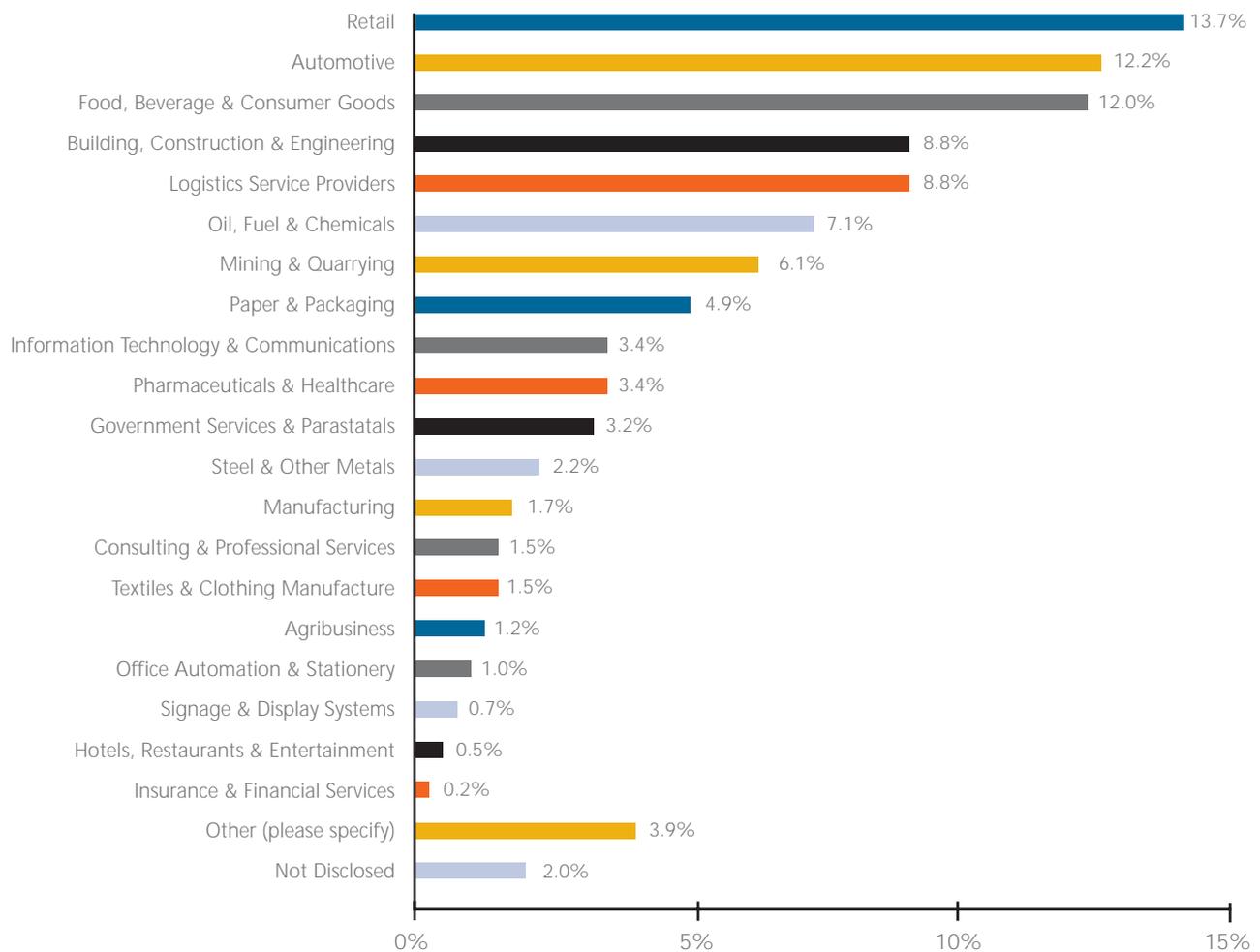
Section One

Industry participation showed increases across the board also, with the retail, automotive and FMCG sectors leading the way. Significant response also came from the building and construction, oil, fuel and chemicals, and the mining sectors. Participation from the public sector is also on our radar for the first time this year. The industries who have

responded in numbers are those who are facing the most pressure in terms of complexity and globalisation challenges, so this is no surprise. Overall the increases in participation in the study this year mean that we can draw statistically significant conclusions within industry groups and from the responses of key senior executives.

► Participant profile: Industry

Total Sample



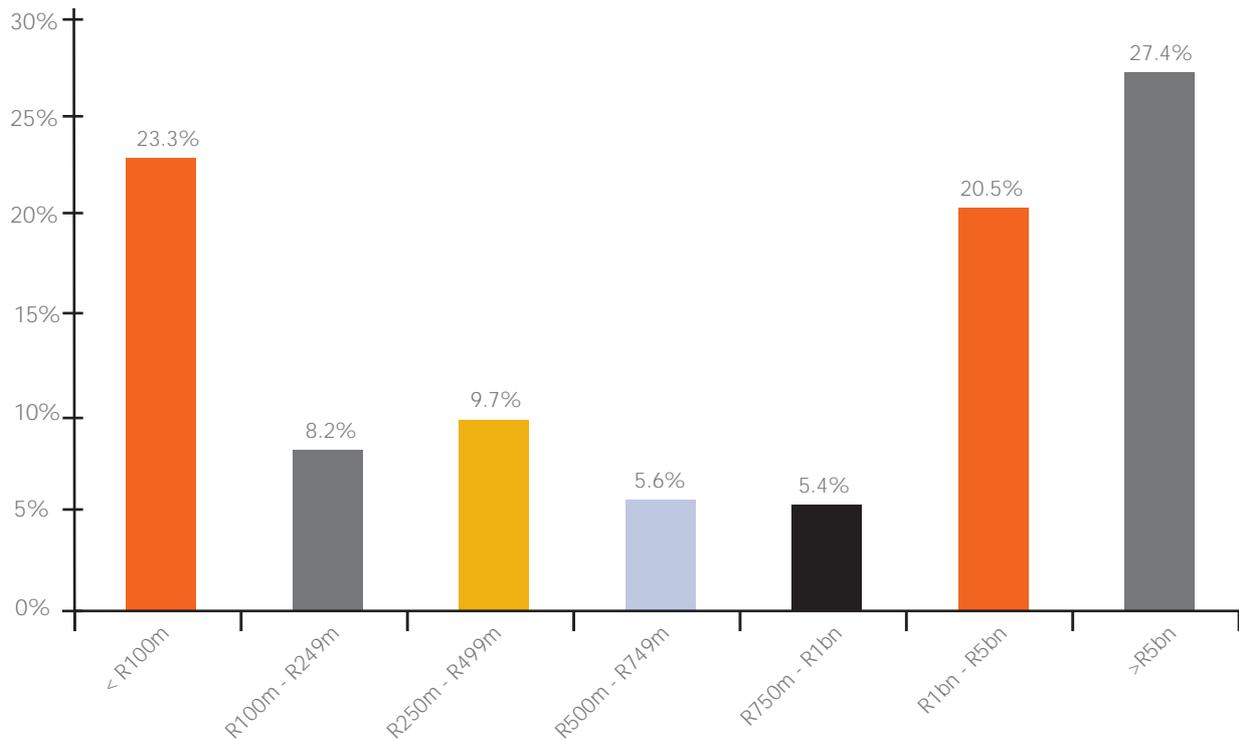
Section One

Finally, in terms of the size of companies surveyed, there are also significant differences in this year's research. We added a category of response for companies with greater than R5bn annual turnover, and this is our leading category, with almost 28% of companies at this size. The next biggest segment is those companies under R100m in

turnover, at 23%. The spread of attitude and experience this provides is invaluable. The large companies are facing the complexity and globalisation challenges head-on, and the small companies will often be suppliers to them, or facing their own capability and complexity challenges.

► Participant profile: Company size (by annual turnover)

Total Sample



Participation levels of South Africa's biggest companies

were high.

Section One

Complexity and Capability

To map a grid positioning companies across the measures of the complexity of their value chains and the capability of these companies to deal with that complexity, we asked several questions.

On the complexity axis, we asked in which regions companies performed the business activities of sales and marketing, procurement, manufacturing and engineering, in order to gain a picture of the nature and extent of globalisation for the business, and by extension the complexity of the value chain. We then drilled down into this information, gleaning specifics on numbers of inbound

items, manufacturing facilities, SKUs, direct customers, etc.

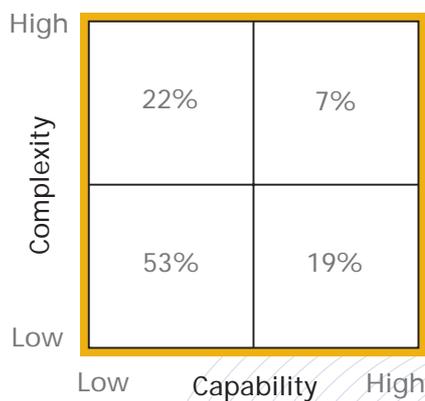
On the capability axis, companies were rated in terms of their relative competitiveness on factors such as product innovation, time to market, manufacturing flexibility, logistics effectiveness and supply chain reliability.

The business success indicator was then determined when companies were asked to rate their success relative to their competitors in areas such as profitability, revenue growth, market share growth and customer retention.

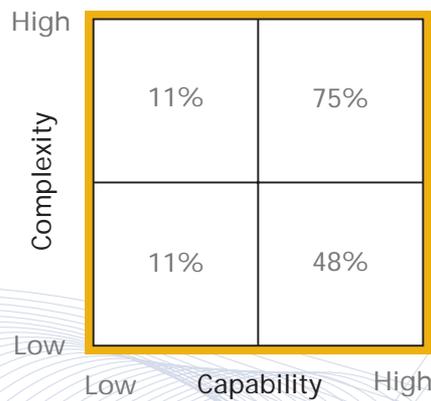
We then plotted scores for complexity of the value chain against each

companies' ability to deal with it, and were then able to organise companies into four different quadrants. We then examined how many of the companies falling into each quadrant had reported having higher success measures than their competitors. The measures along the two axes, correlated with these success measures, enabled us to plot two grids, each into four quadrants, which had the following distribution:

- Distribution of companies as per the complexity and capability indices



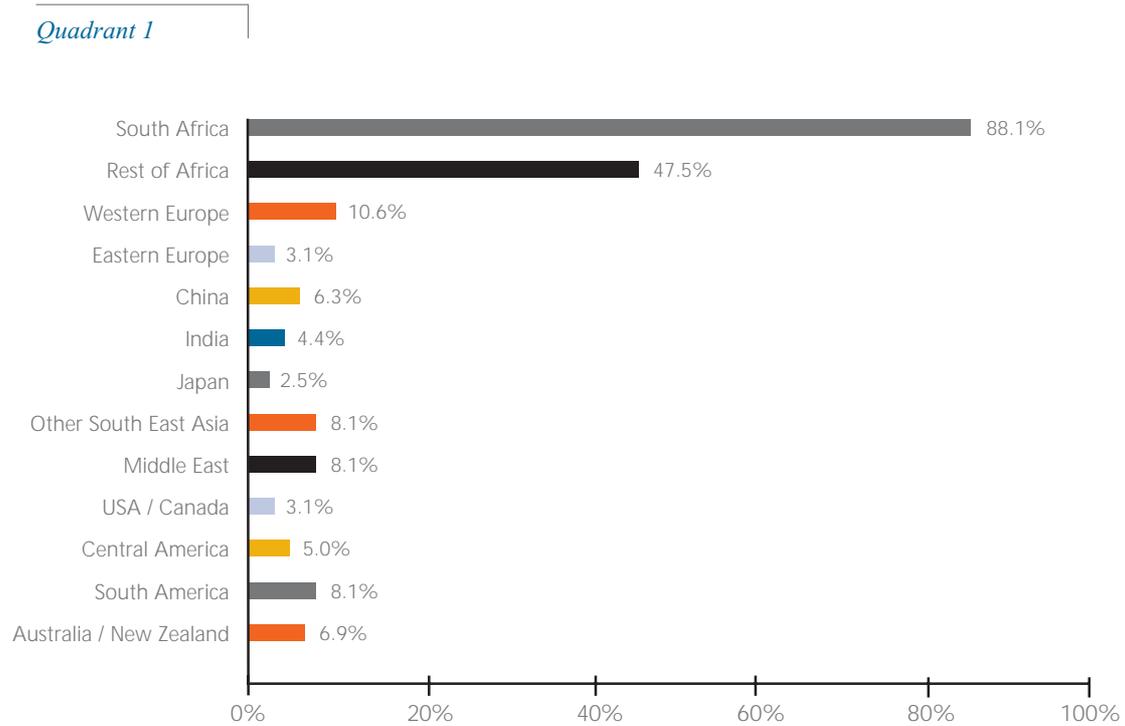
- Percentage of companies per quadrant reporting greater success than their competitors



• Quadrant One: Low Complexity, Low Capability

This quadrant accounts for the majority of respondents, at 53% of the total. However, only 11% of these companies rate themselves as more successful than their competitors. The vast majority of their activities are inside SA, with only a few venturing beyond our borders to the rest of Africa and beyond.

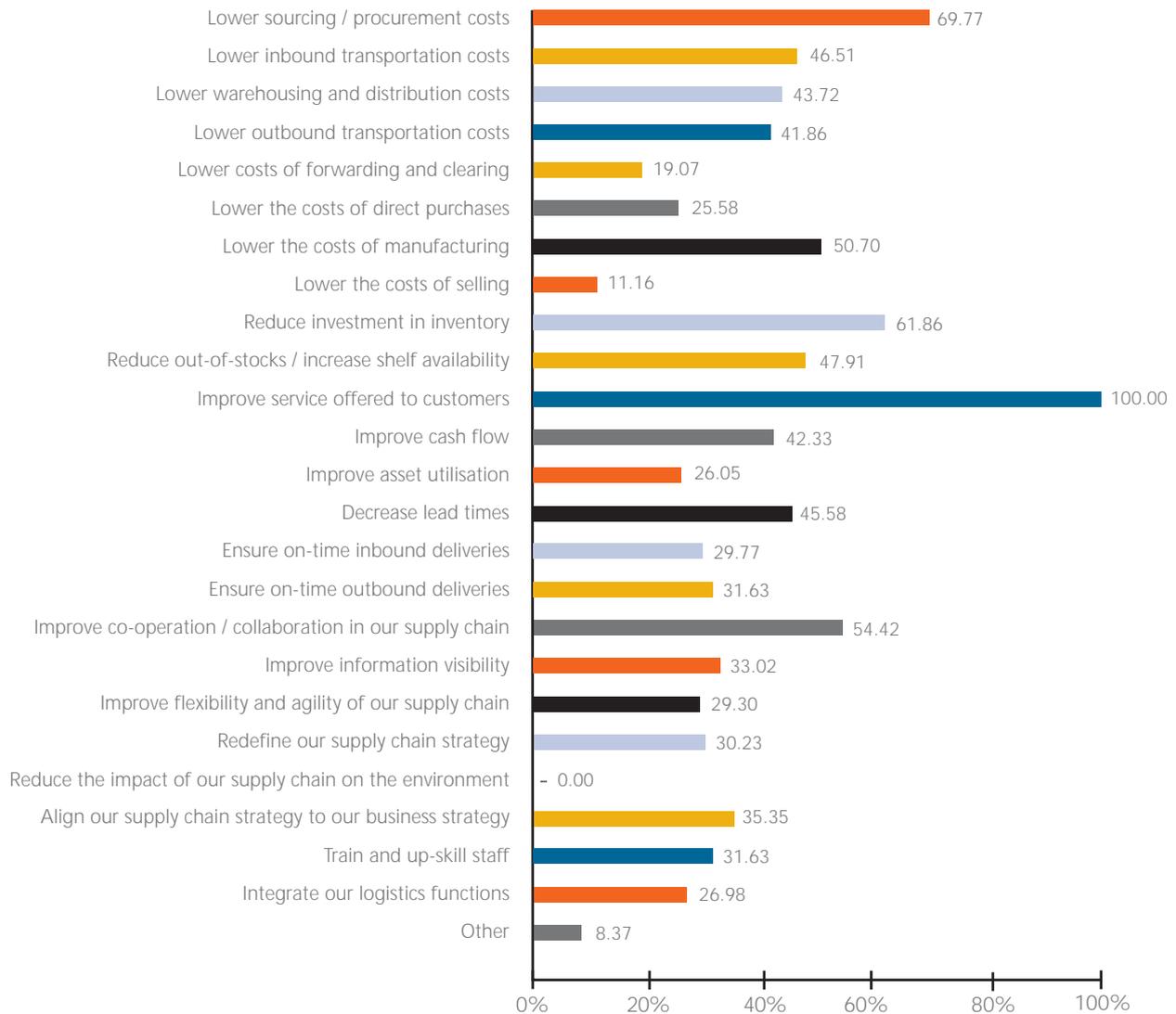
► SA companies' global activities : Marketing / Sales



The top objectives for the companies in this quadrant reflect their more localised view, and are focused largely on cost reduction within individual supply chain functions, without much focus on the important methodologies that would provide these cost reductions. They wish most to improve service to customers, followed by reducing sourcing costs and investments in inventory.

► Supply chain objectives:

Quadrant 1

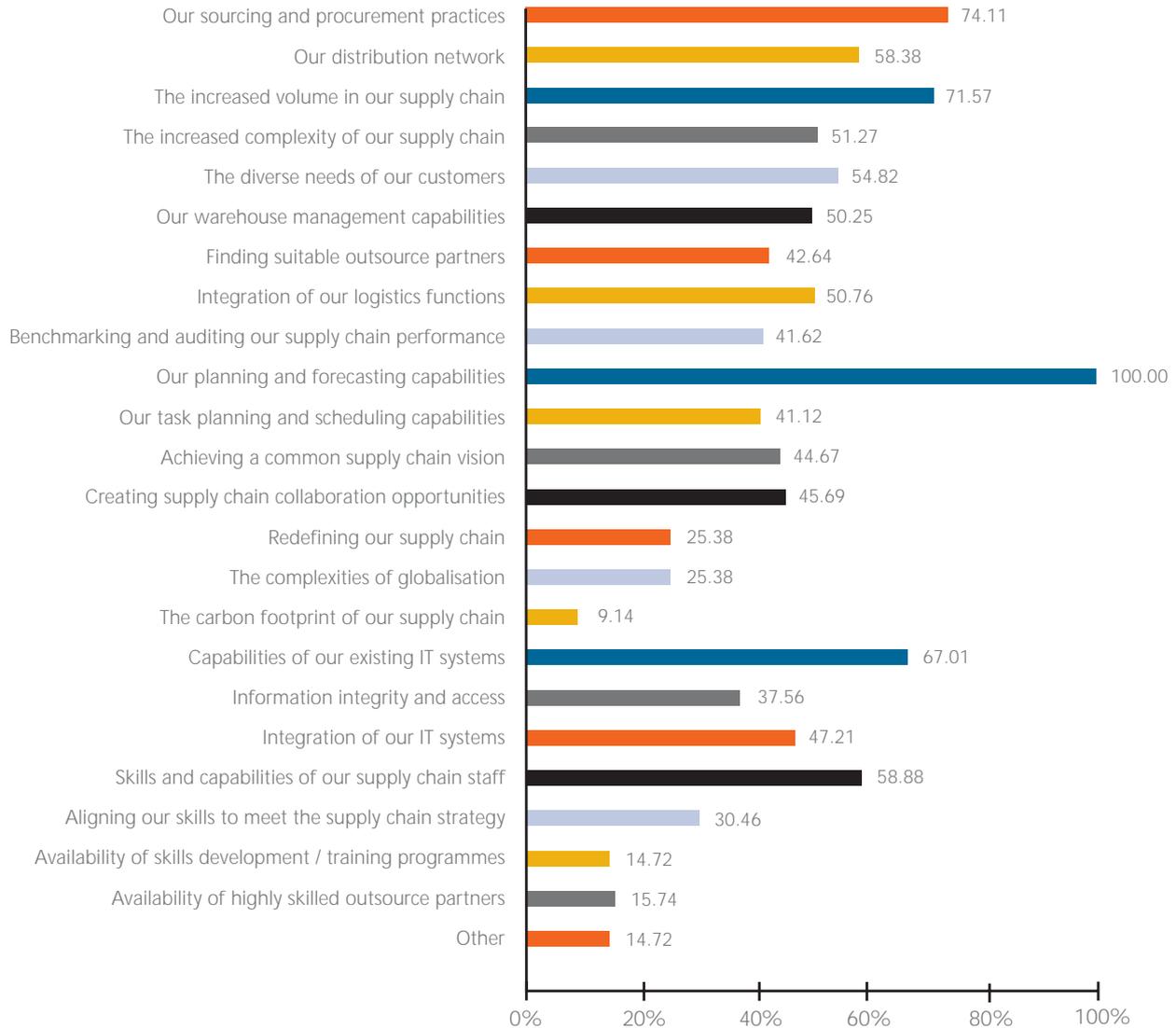


The Quadrant One challenges to achieving these objectives reflect strongly the low levels of capability and the difficulty these companies are having in dealing with a changing global business landscape. The top challenge is planning and forecasting, followed by sourcing practices – which probably means they are struggling to compete with low-cost

global sources of supply, and the challenges posed by increased volumes. In addition, complexity and diversity of customer needs are compounding their forecasting challenge. Also featuring strongly as challenges are IT capability and staff capability, indicating a sense of hopelessness that current solution sets will cope.

► Challenges to meeting the objectives

Quadrant 1



Quadrant 1 companies have typical cost reduction and service enhancement as objectives, and are challenged by their inability to forecast.

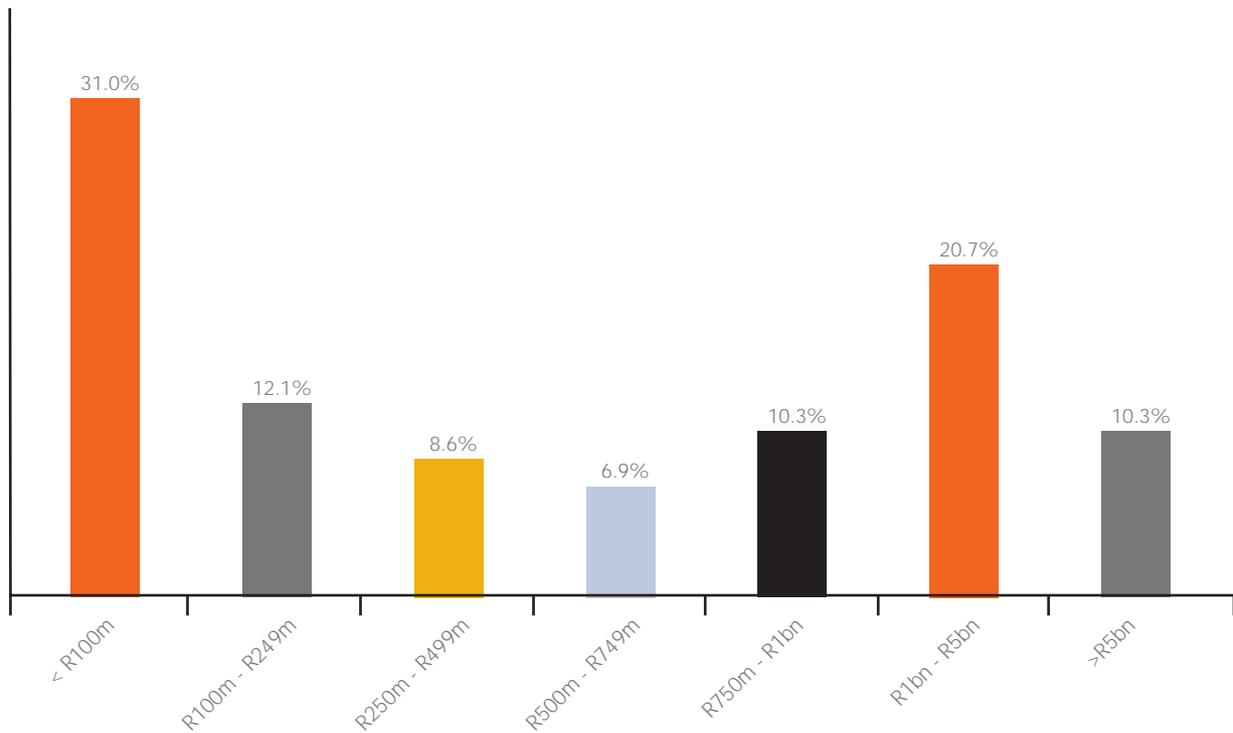
• Quadrant Two: Low Complexity, High Capability

This quadrant contains companies focused on silo-based efficiency in their value chain, in low-complexity environments. This quadrant, like Quadrant One, is relatively smaller, with most (31%) coming from the lower than R100m turnover grouping.

Almost a fifth (19%) of all companies surveyed fall into this quadrant, but, interestingly, a high 48% of those rate themselves as more successful than their competitors. The size of these companies or out bound activity outside of Africa.

► Participant profile: Company size (by annual turnover)

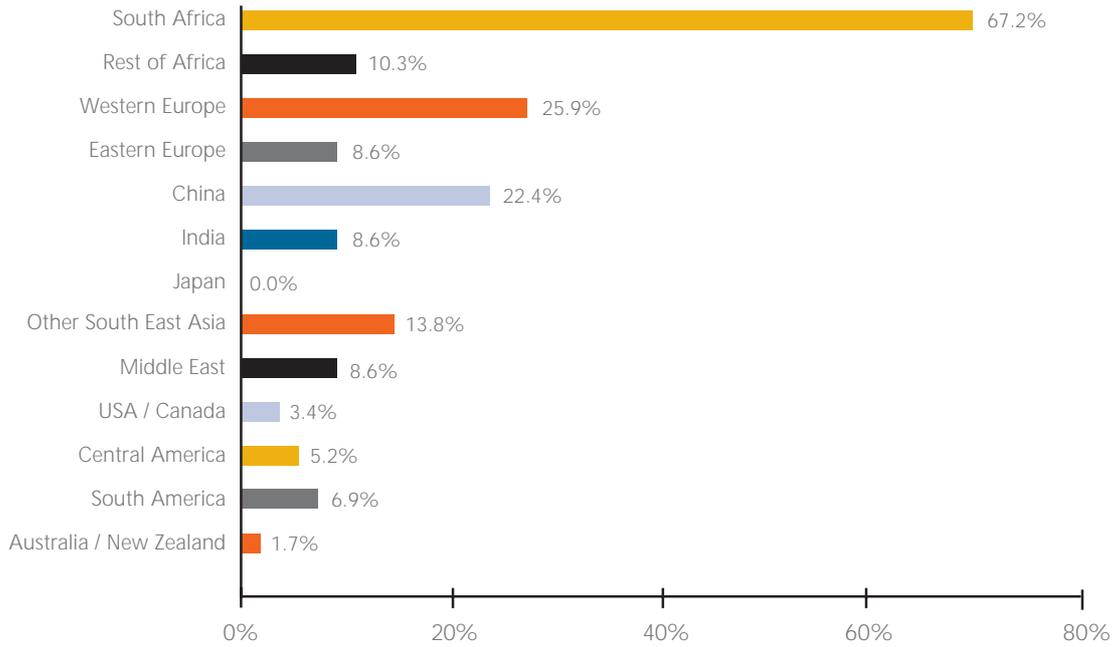
Quadrant 2



48% of Quadrant 2 companies rate themselves as more successful than their peers.

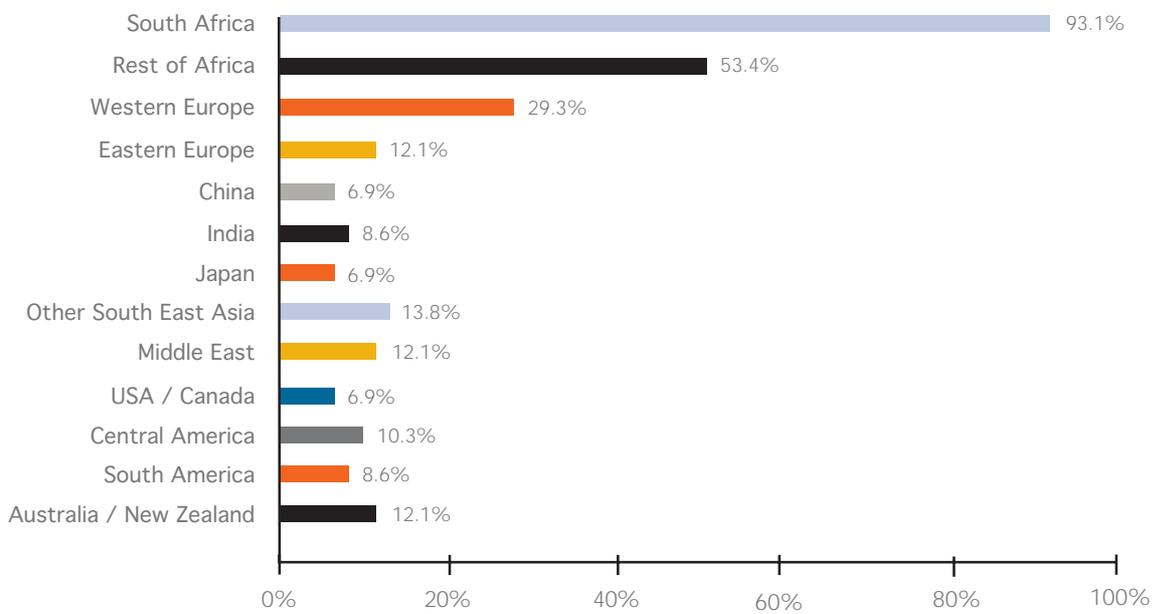
► SA companies' global activities: Procurement

Quadrant 2



► SA companies' global activities: Marketing/Sales

Quadrant 2

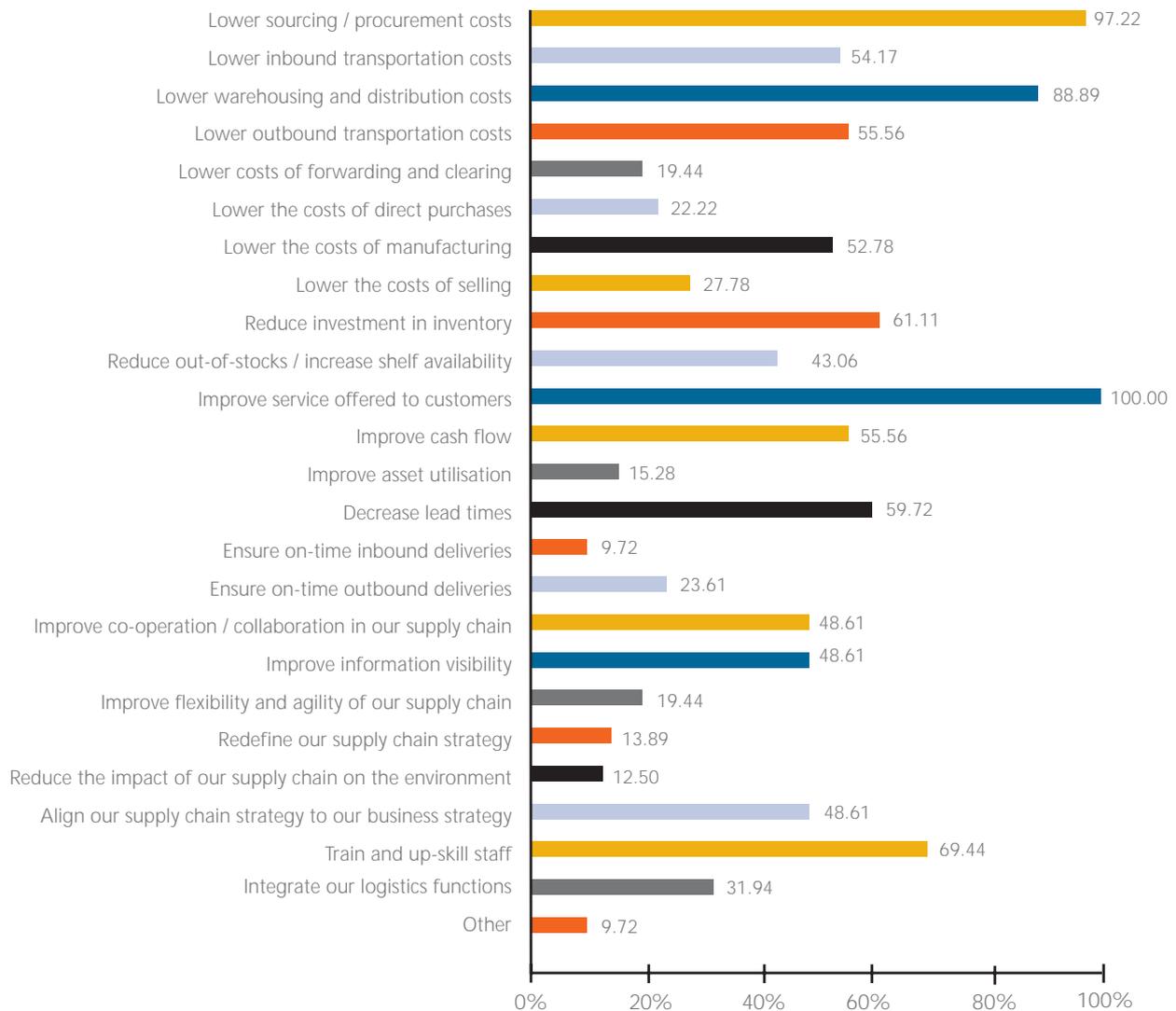


The top objectives for the quadrant are clearly silo-focused, with improved customer service the overall top objective. Other goals are focused on cost reduction across the supply chain, particularly in specific areas such as sourcing,

warehousing and distribution and inventory costs. Significantly, the quadrant has a major training and skills improvement objective, reflecting their determination to improve functional efficiency.

► Supply chain objectives

Quadrant 2

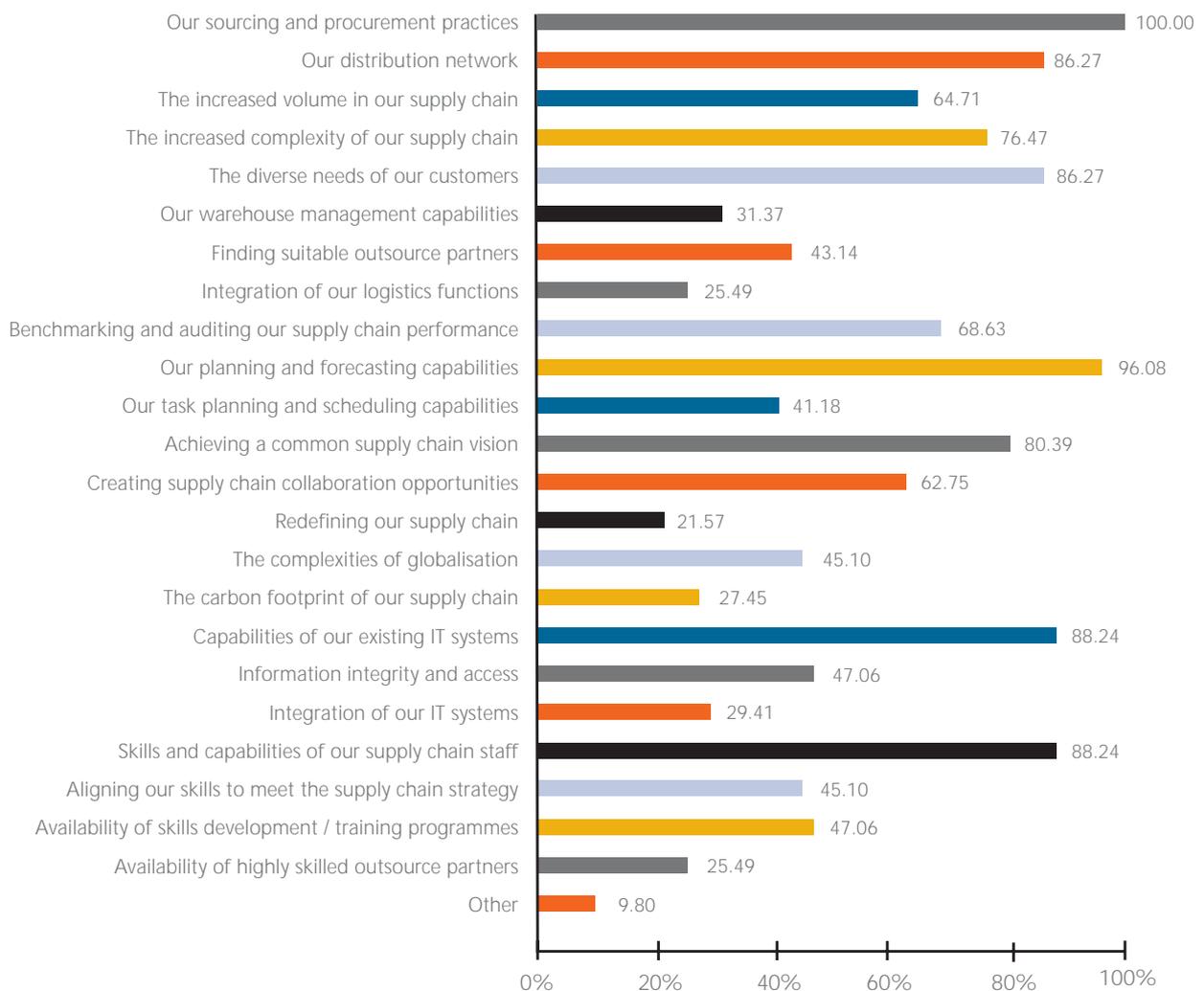


The top challenges of this quadrant reflect the strain of maintaining their current efficiencies in a rapidly changing market. Sourcing is a major challenge, since their local focus makes them vulnerable to low-cost global sourcing. Planning and forecasting challenges are exacerbated by increased volumes and complexity of the supply chain and the

diverse needs of an increasingly demanding customer base. The perceived inability of current IT systems and supply chain staff skills and capabilities to achieve objectives are also problems for a sector which is reaping the rewards of having improved their supply chain capability but which has yet to take advantage of the possibilities that globalisation offers.

► Challenges to meeting the objectives

Quadrant 2



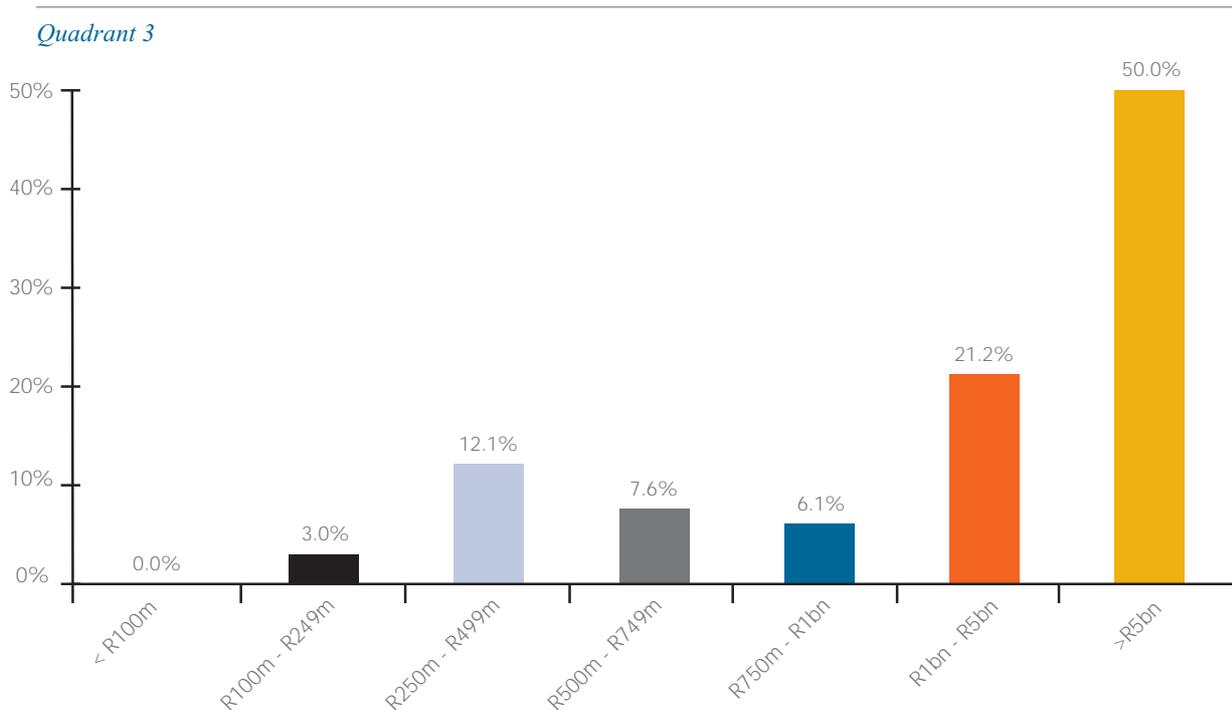
• Quadrant Three: High Complexity, Low Capability

This quadrant might also be dubbed the 'chaos quadrant', and reflects graphically the difficulty of responding to the globalisation challenge without the right strategic approach to value chain reform and the right deployment of capability. Just over a fifth (22%) of companies surveyed see themselves as having highly complex value chains, and relatively low capability. Of these, only 11% see

themselves as more successful than their competition. A total of 50% of the companies in this quadrant have over R5bn in turnover, and so large companies have to compete on a global stage.

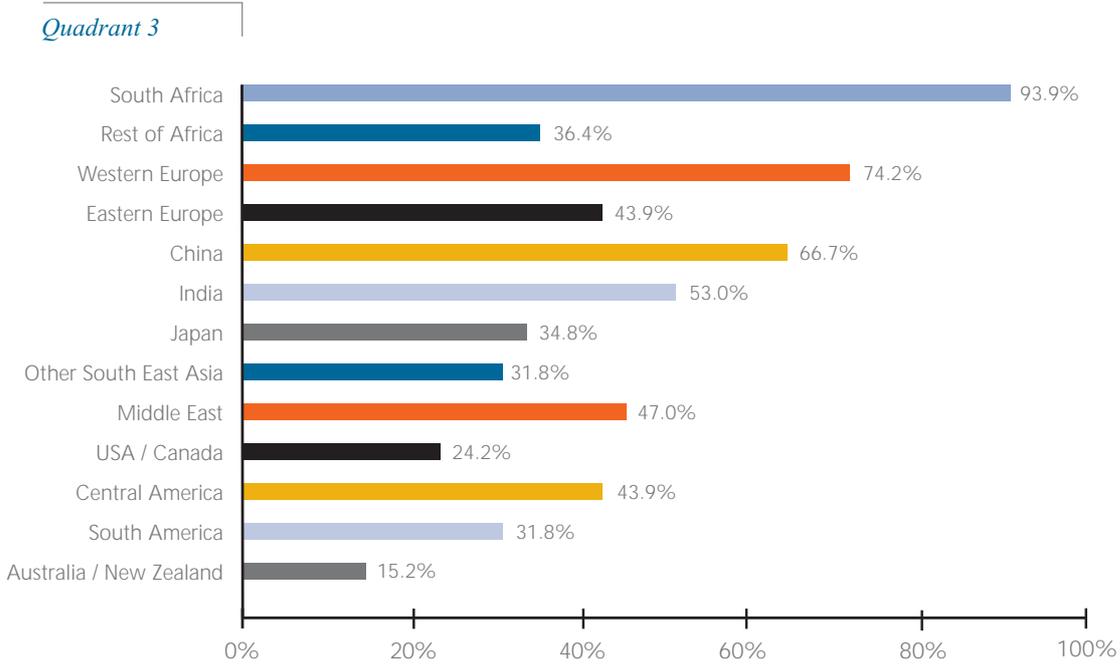
Both marketing and sales and procurement activities demonstrate a wide global market reach.

► Participant profile: Company size (by annual turnover)

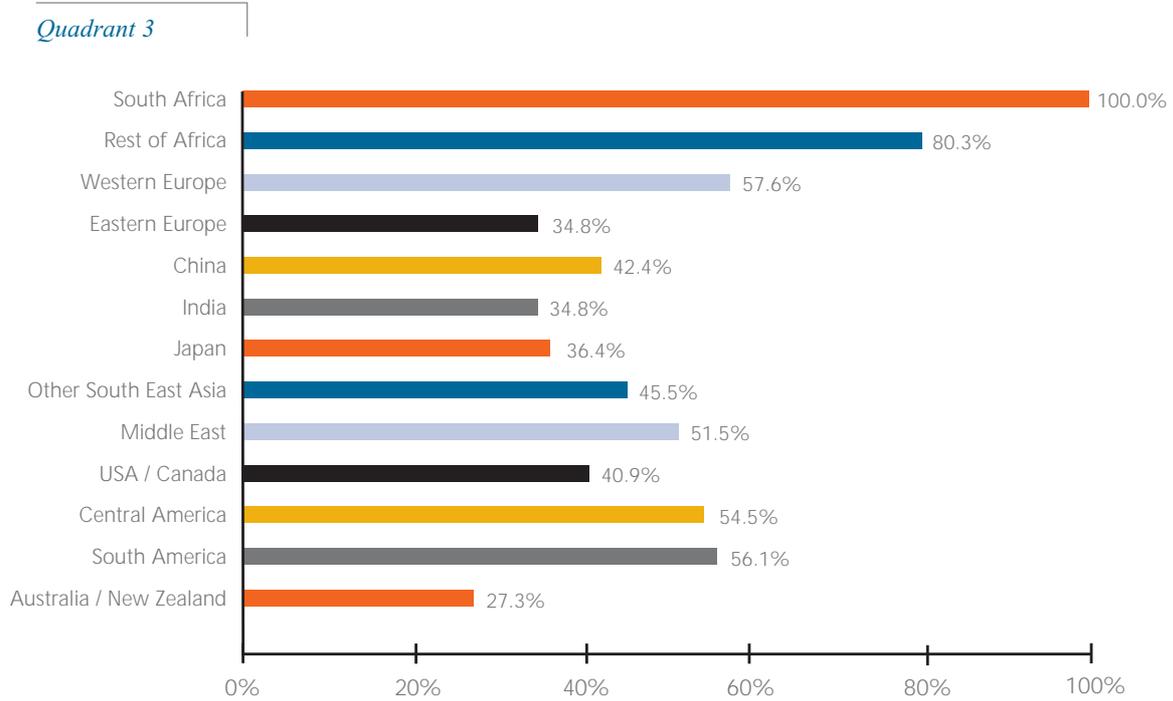


Quadrant 3 companies find themselves (by either design or circumstance) in highly complex value chains, without the requisite skills. We call this the chaos quadrant.

► SA companies' global activities: Procurement



► SA companies' global activities: Marketing / Sales

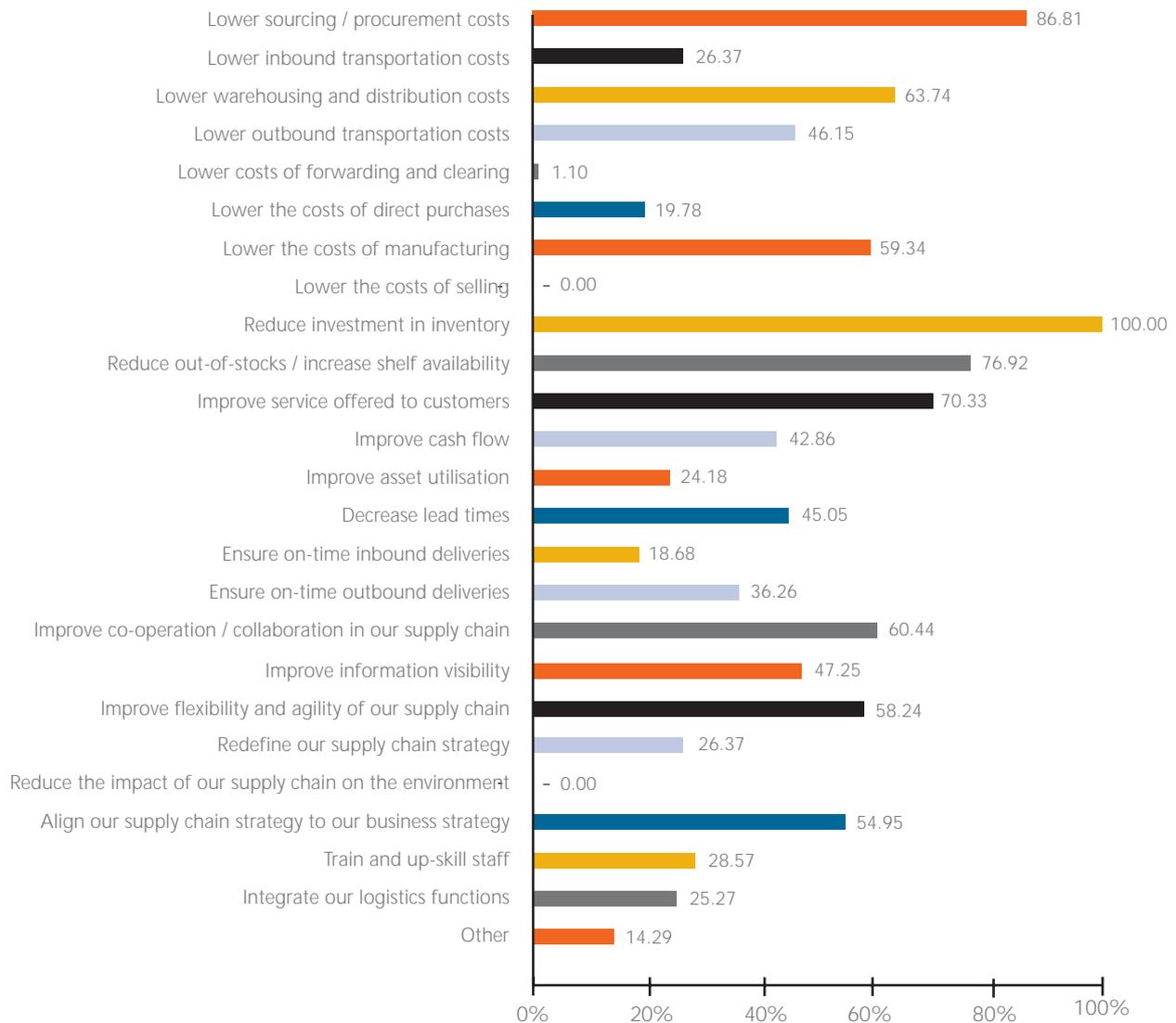


The top objective for this quadrant is to reduce investment in inventory, while at the same time reducing out-of-stocks and improving service delivery. The high score for reducing sourcing costs reflects the pressure of international competition,

while the realisation that they need to improve collaboration, flexibility, agility and visibility in the supply chain, as well as aligning the supply chain and business strategies, indicates a realisation that improvements in capability are crucial.

► Supply chain objectives

Quadrant 3

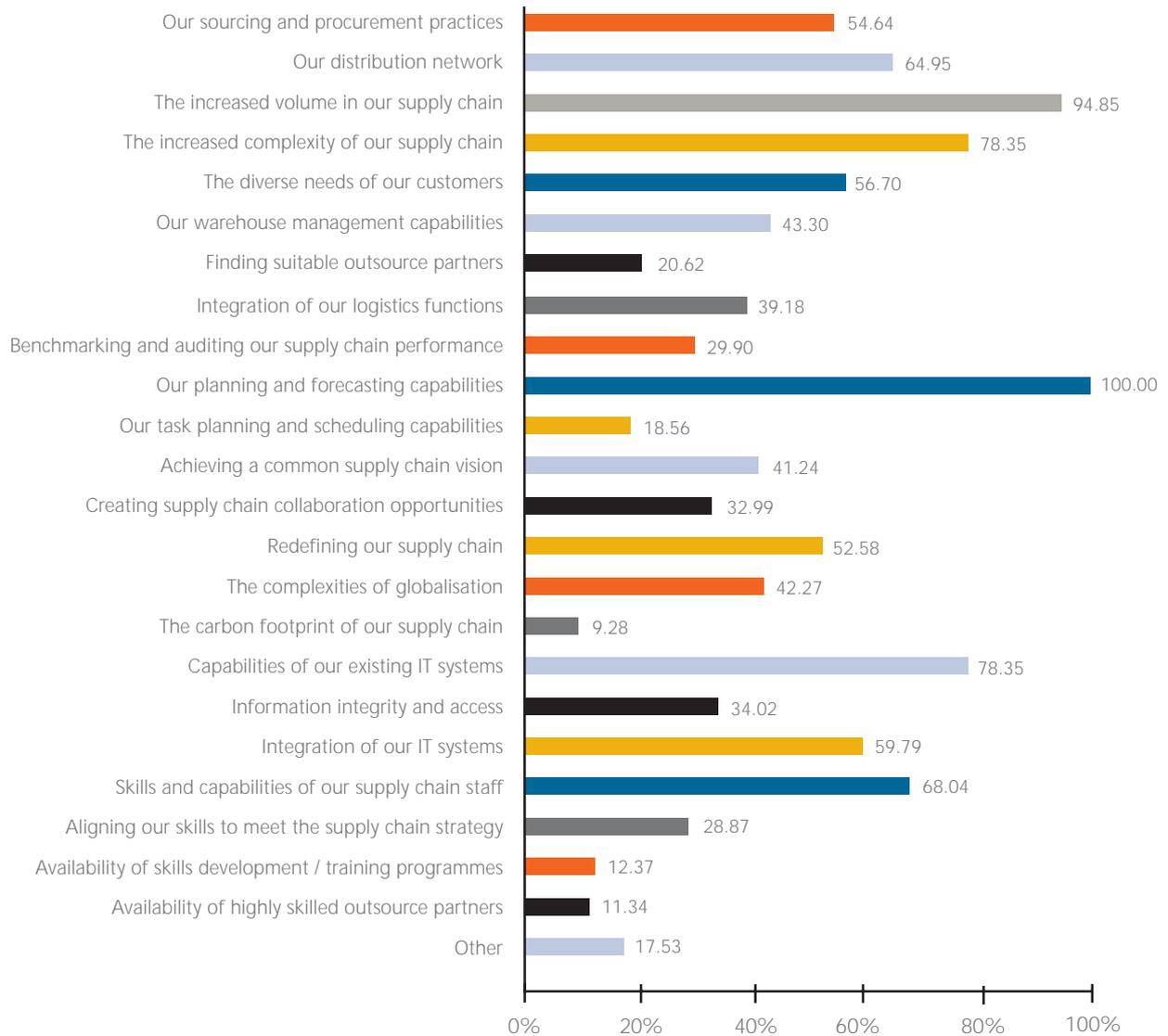


The challenges to achieving these objectives reflect the position of companies with a complex and multifaceted global value chain, without the supply chain capabilities to make it pay off for them. The top challenge is planning and forecasting, linked to the

challenges raised by increases in volumes and complexity. Insufficient IT systems and their lack of integration are seen alongside the skills levels of their supply chain staff as being to blame for their inability to cope with this complexity.

► Challenges to meeting the objectives

Quadrant 3

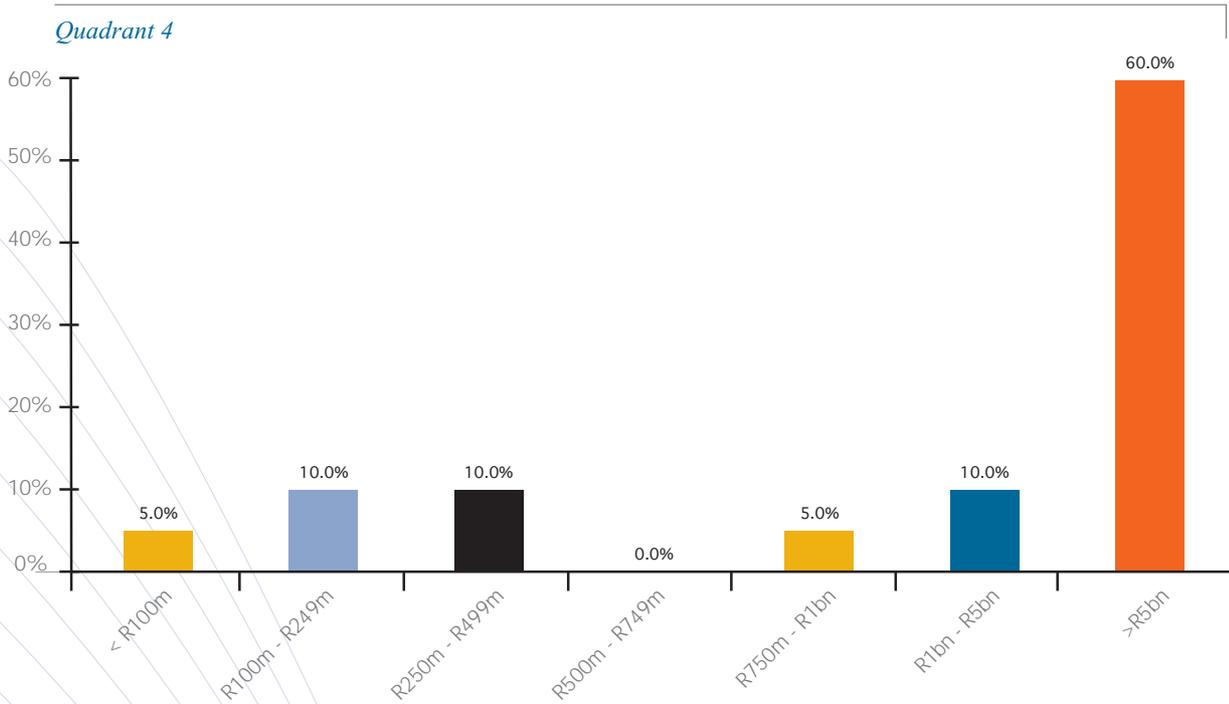


• Quadrant Four: High Complexity, High Capability

In this, our 'complexity masters' quadrant, only 7% of companies surveyed rate themselves as both complex and capable. But by far the majority of these companies - 75% - rate themselves as more successful than their competitors. A total of 60% of these companies are also large and multinational in size and character, with over R5bn in turnover.

As one would assume, both their sourcing and selling activities show a good spread of global markets, especially sales into the major trade areas of Western Europe, the Middle East and South-East Asia, as well as the rest of Africa.

► Participant profile: Company size (by annual turnover)

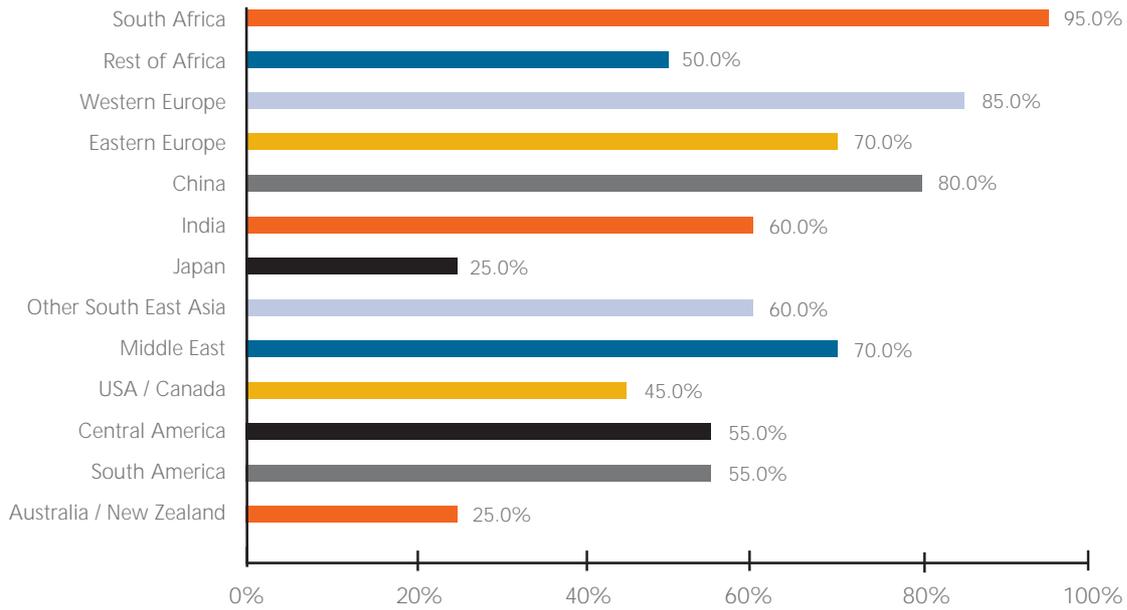


Quadrant 4 respondents are our 'complexity masters'.

75% rate themselves as more successful than their peers.

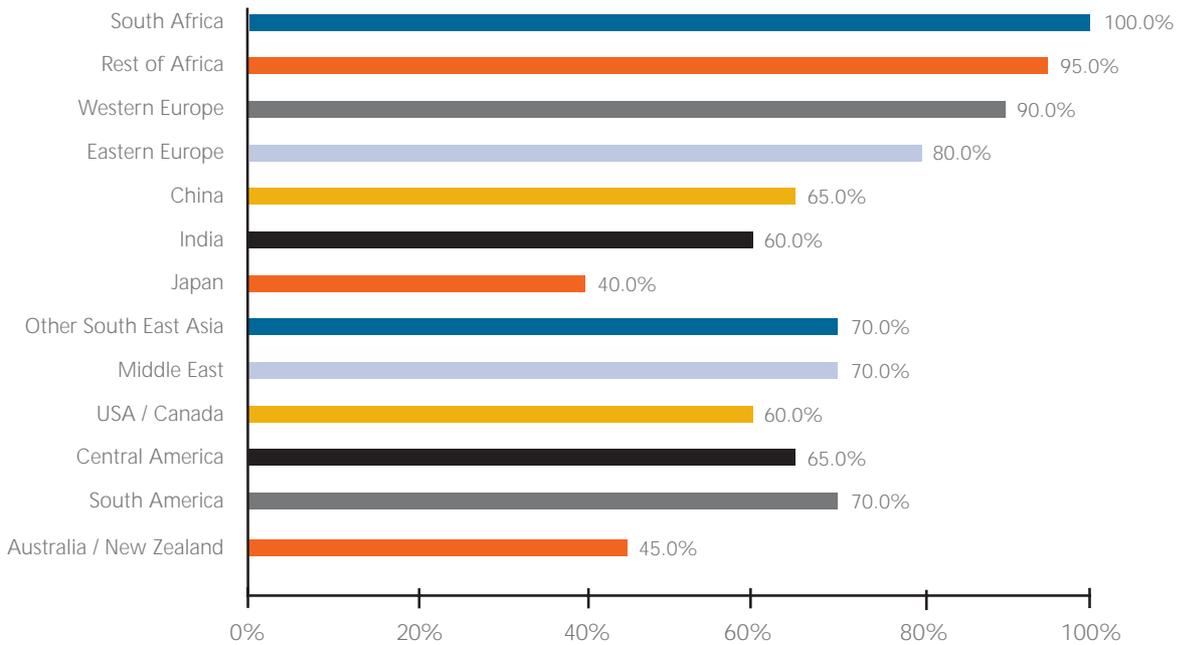
► SA companies' global activities: Procurement

Quadrant 4



► SA companies' global activities: Marketing / Sales

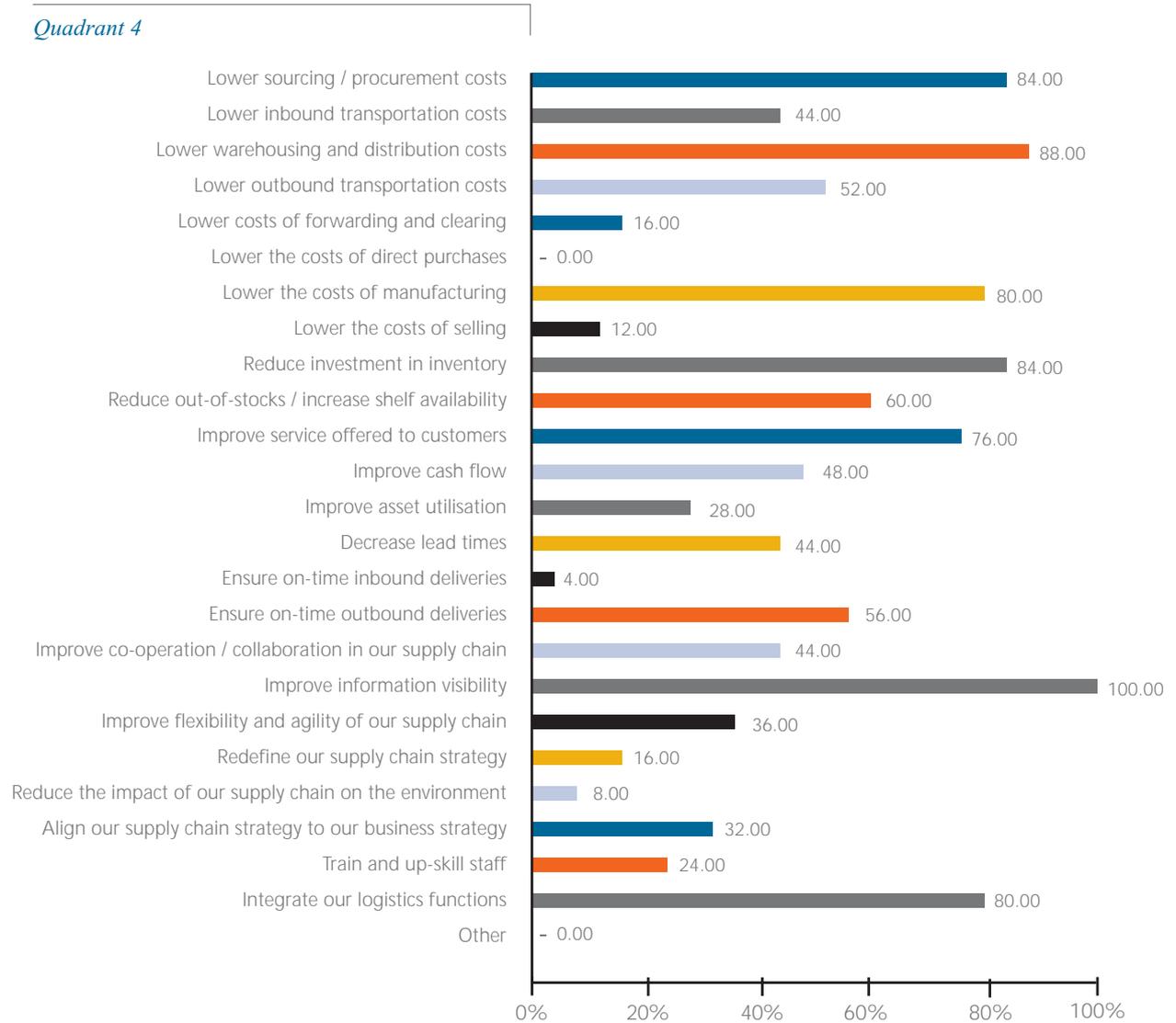
Quadrant 4



The top objectives for this group reflect the reasons for their success. Their complex approach to globalisation is reflected by their high level of supply chain capability. Thus their objectives reflect not only the traditional supply

chain objectives of cost reduction and service enhancement, but also the methods by which these may be achieved in an increasingly globalised economy – chiefly through information visibility and the integration of logistics functions.

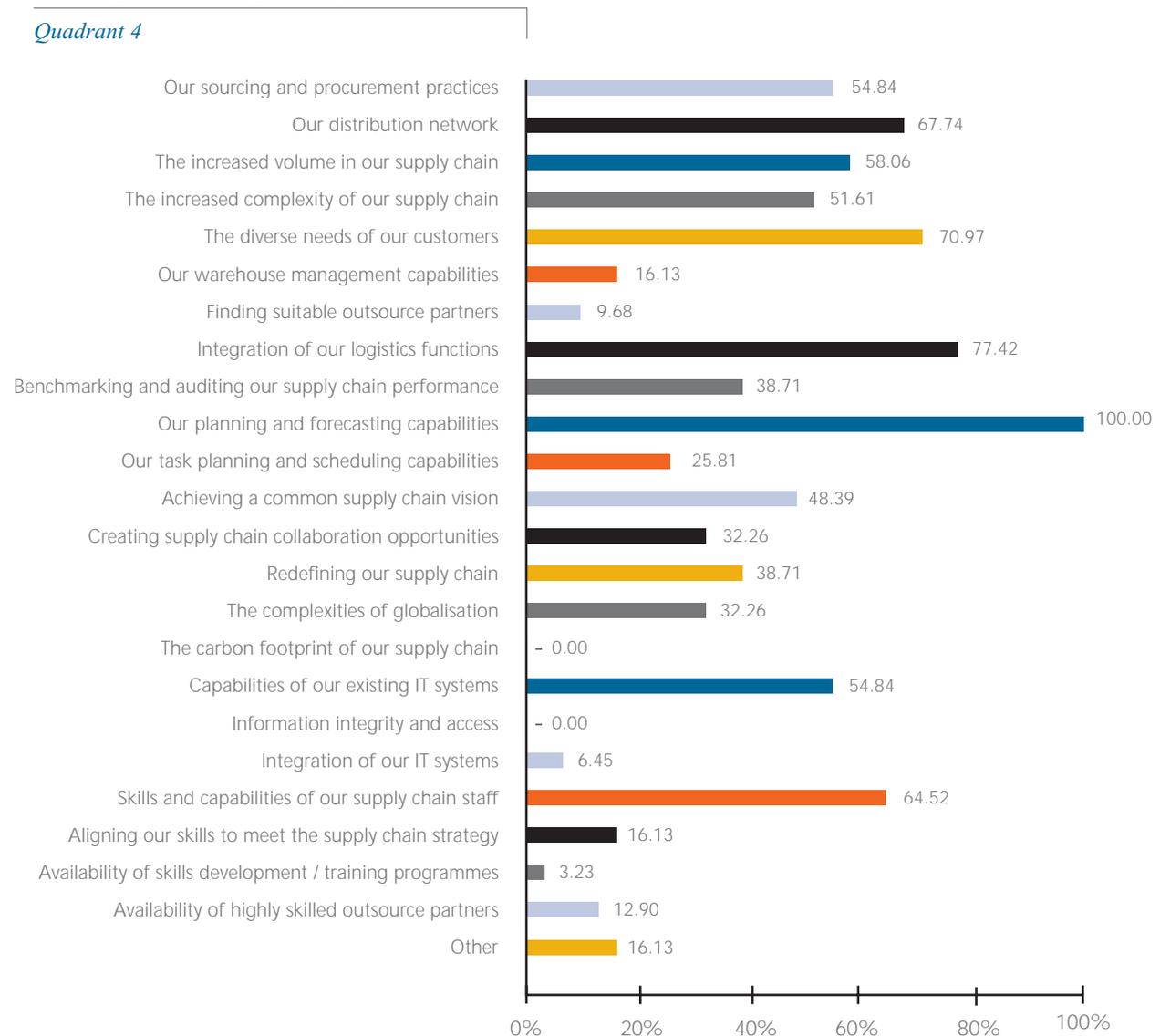
► Supply chain objectives



When one examines the challenges facing Quadrant Four companies, it is unsurprising to find planning and forecasting as the top challenge given the diverse needs of global value chain partners. However, the distinguishing

difference of companies in this sector is their recognition of integration as a key challenge. Once again the quadrant exhibits a focus on the 'how' and not only on the 'what'.

► Challenges to meeting the objectives



Section One

Summing Up

It's clear that it will be easier for some companies to migrate their business to the desirable fourth quadrant than it will be for others. For companies in Quadrant One the immediate goals should be to rescue their situation by increasing efficiencies in their supply chains in order to begin to compete. A response to global complexities is ineffective without first having such capabilities and efficiencies, as Quadrant Three companies are finding to their cost.

Overall, the companies in Quadrant Two demonstrate good business practices, but in the context of the pressures on globalising supply chains these are inappropriate in as much as they are failing to respond to complexity. They are, however, better geared to do so, and lack only a strategic view perhaps,

or the burning platform which requires the move outward into global markets. Those companies in Quadrant Three are putting their business at risk because moving into a complex, globalised value chain without the capability to respond to its challenges means sales lost to more capable competitors. These businesses will tend to be playing catch-up with more capable competitors, and will struggle to gain competitive advantage. In the Quadrant Four scenario, the capabilities are appropriate to the complexities these businesses face in their value chains, with a consequent emphasis on information visibility for management, and the effective integration of functions across the chain. Here, strategies are aligned with tactics, and these businesses are already seeing the rewards of early adoption of globalised supply chain systems and processes.

Creating Competitive Advantage in a Skills Crisis

The skills and capabilities of supply chain staff is one of the most consistent challenges of the entire sample group again this year. But how is it being addressed? How does it impact on companies in the different quadrants, in the approach to upskilling their own staff and in interacting with the various logistics and supply chain service providers in the global market?

The approach to outsourced service providers

What we are seeing is a radical change to outsourcing practice in response to the skills shortage. It is still being used in the more traditional mode of a cost reduction through the outsourcing of

non-core activities, but there is also a marked increase in the use of outsourcing as a route to competitive advantage.

In comparing this year's findings on outsourcing with last year's, we have stuck to the views of the supply chain and logistics managers, who have a more hands-on knowledge of the range of outsourcing activities going on in companies. In terms of using external service providers, 76% of respondents use outsourced outbound distribution, quite appreciably up on last year's figure of 67%. Around 70% use forwarding and clearing companies, the same as last year. The use of outsourced warehousing is marginally down to 48% from 52% last year.

Section Two

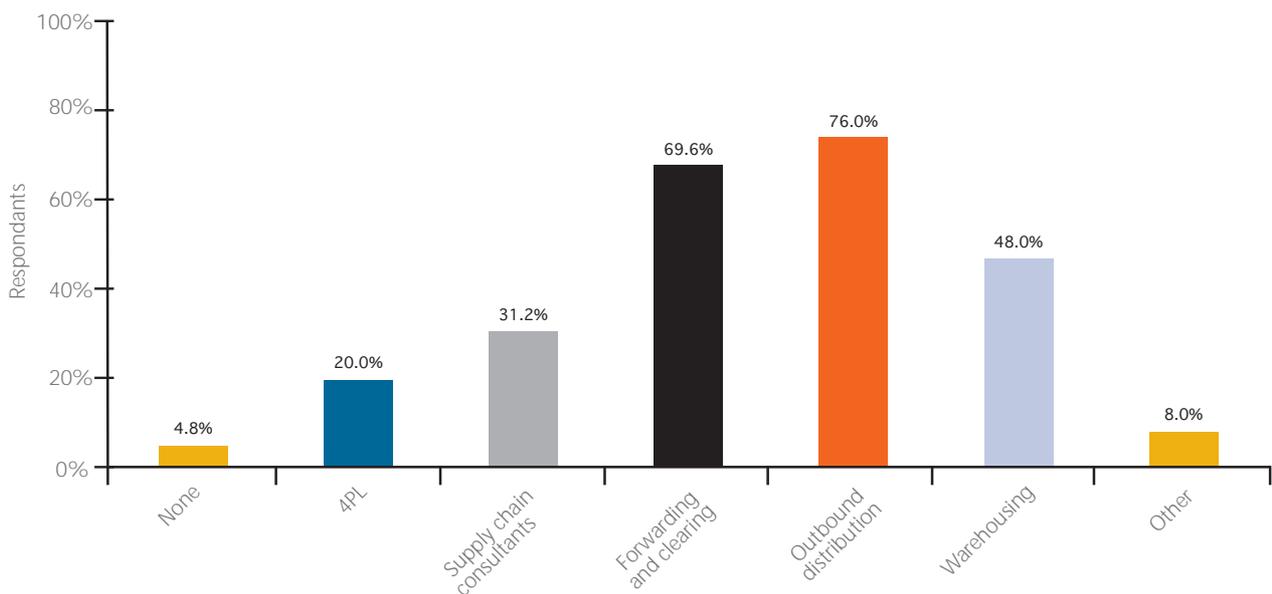
These areas are largely the province of 3PL commodity service providers, so of more strategic interest is the increase in the use of 4PLs for the total sample. One in 5 companies (20%) is using 4PL

service providers, compared with 11% last year. The number using supply chain consultants has stayed steady at just over 31%. In addition to the large current increase in the use of 4PL service

providers, another 8% indicate they will be using 4PLs in the next year, coupled with a further 25% who say they will use supply chain consultants in the next year.

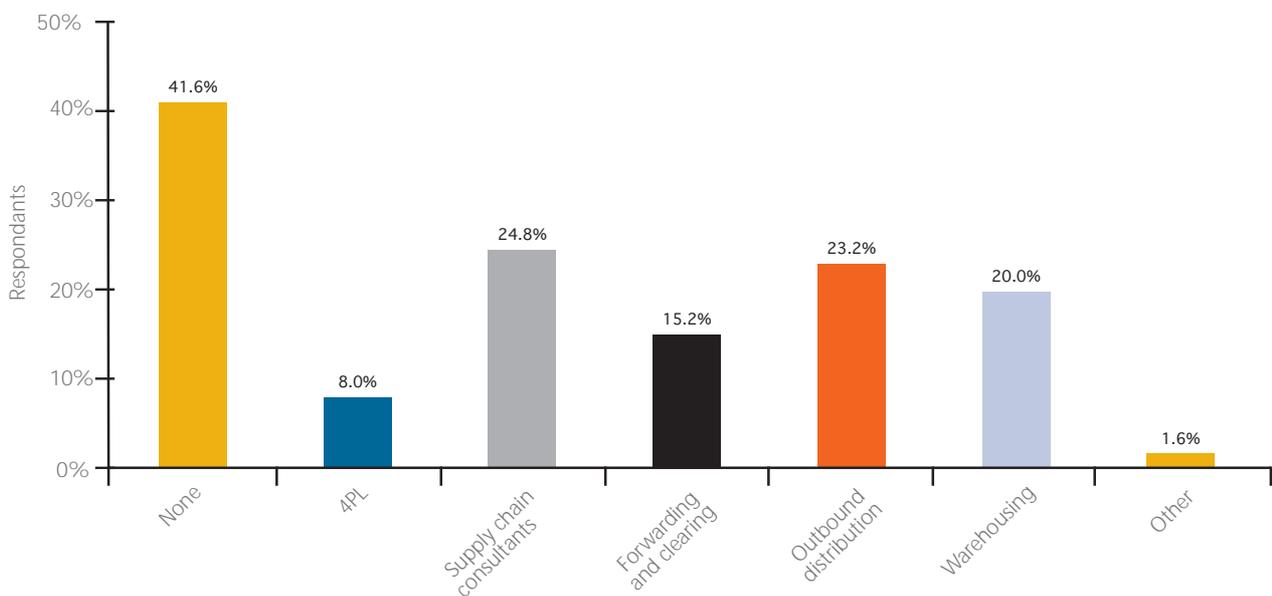
► What types of logistics service providers does your organisation currently use?

SCLMs



► Is your organisation planning on using any additional logistics service providers within the next 12 months?

SCLMs

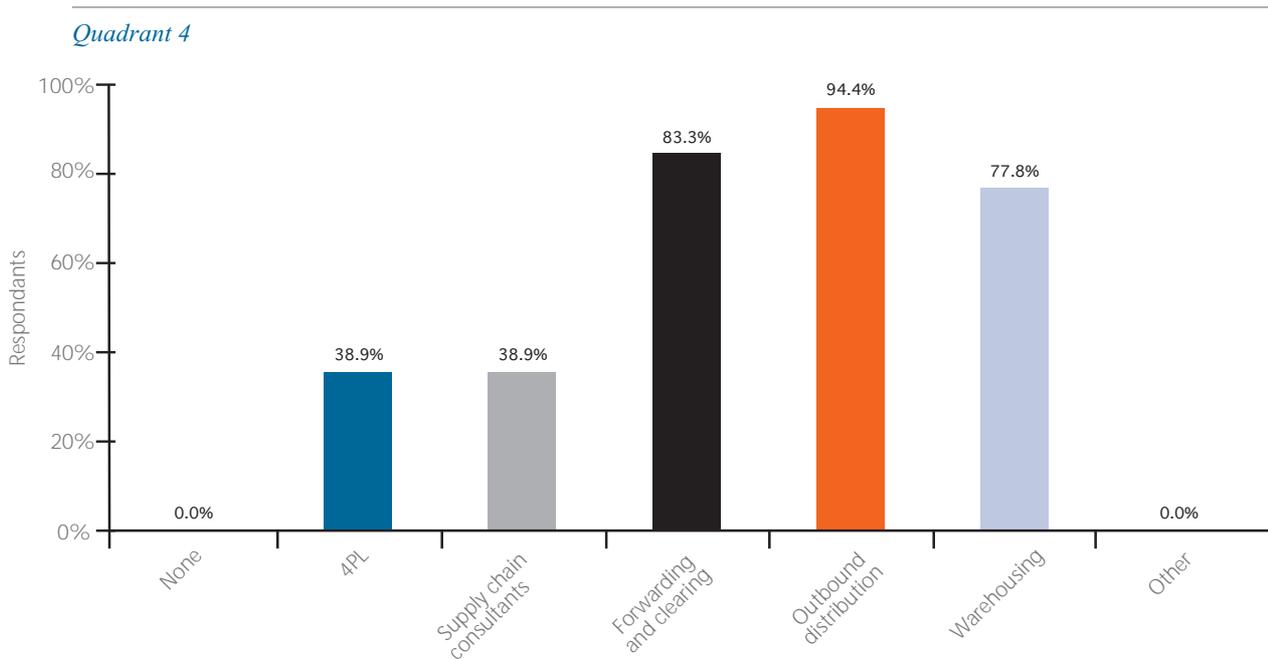


Section Two

This shift in emphasis for the use of external skills is being driven by the Quadrant Four companies. Among them, the use of 4PL and supply chain consultants is at 35% for both. Clearly, these companies are seeing better results

from outsourcing whole parts of their supply chains rather than the outsourcing of functions. But for Quadrant Four companies, the use of 4PLs and consultants is not limiting their use of 3PL service providers across the board.

► Quadrant 4: What types of logistics service providers does your organisation currently use?



A lesson here, especially for those companies with excellent capabilities and efficiencies in Quadrant Two, is that the achievement of functional excellence through using service providers, is followed for Quadrant Four companies by the integration and sometimes the management of processes, using the

skills of 4PLs and consultants. The greater success of the Quadrant Four companies indicates that their focus on improving visibility and integration may be enhanced by the holistic outsourcing of parts of the supply chain to 4PL service providers or to internal managers who seek to achieve similar ends.

Section Two

We also asked respondents to provide their reasons for using external service providers. In the main analysis, the primary reason was to improve performance, at just over 35% of respondents, followed by cost reduction at 32%. For Quadrant Four companies, the main reason followed the main sample, but at a much higher level, with

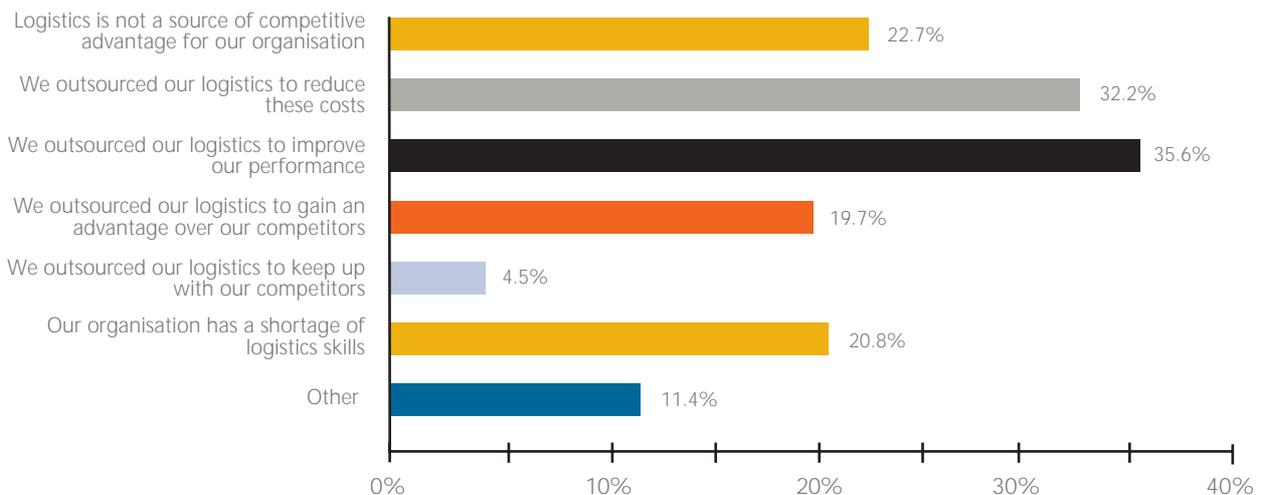
65% of respondents claiming performance improvement as the key driver. Significantly, the Quadrant Four second most popular reason for outsourcing is to gain advantage over their competitors (41%).

Since they are successful at doing so, we can assume that working with external

service providers represents a strategic competitive advantage for Quadrant Four companies, rather than a focus on cost reduction, and that probably a constructive and integrated partnership approach is replacing the old outsource win-lose approach.

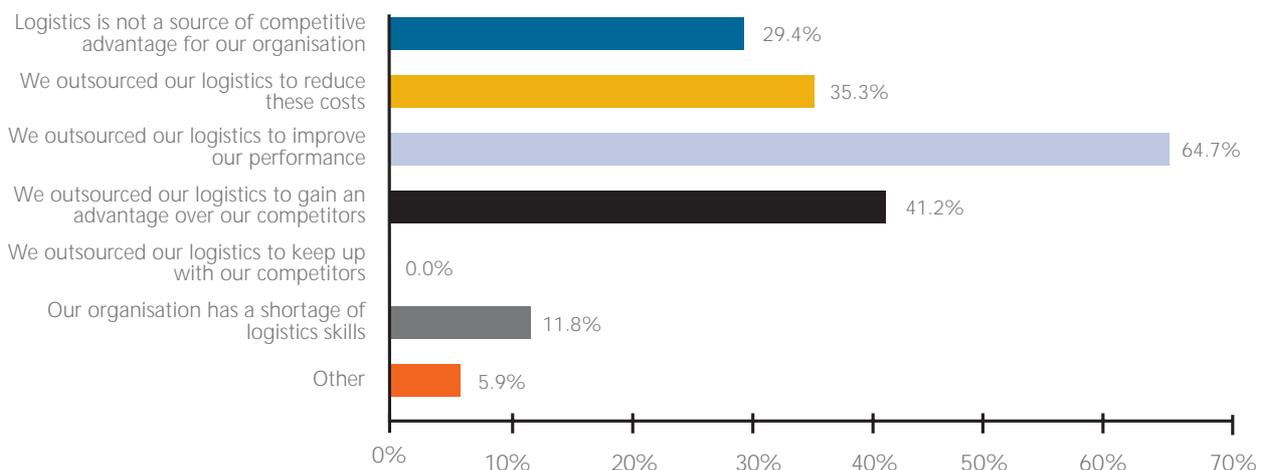
- Which of the following statements most closely reflect your organisation's reason(s) for using logistics service providers?

Total Sample



- Which of the following statements most closely reflect your organisation's reason(s) for using logistics service providers?

Quadrant 4



Section Two

Business Leadership and Management on External Service Provision

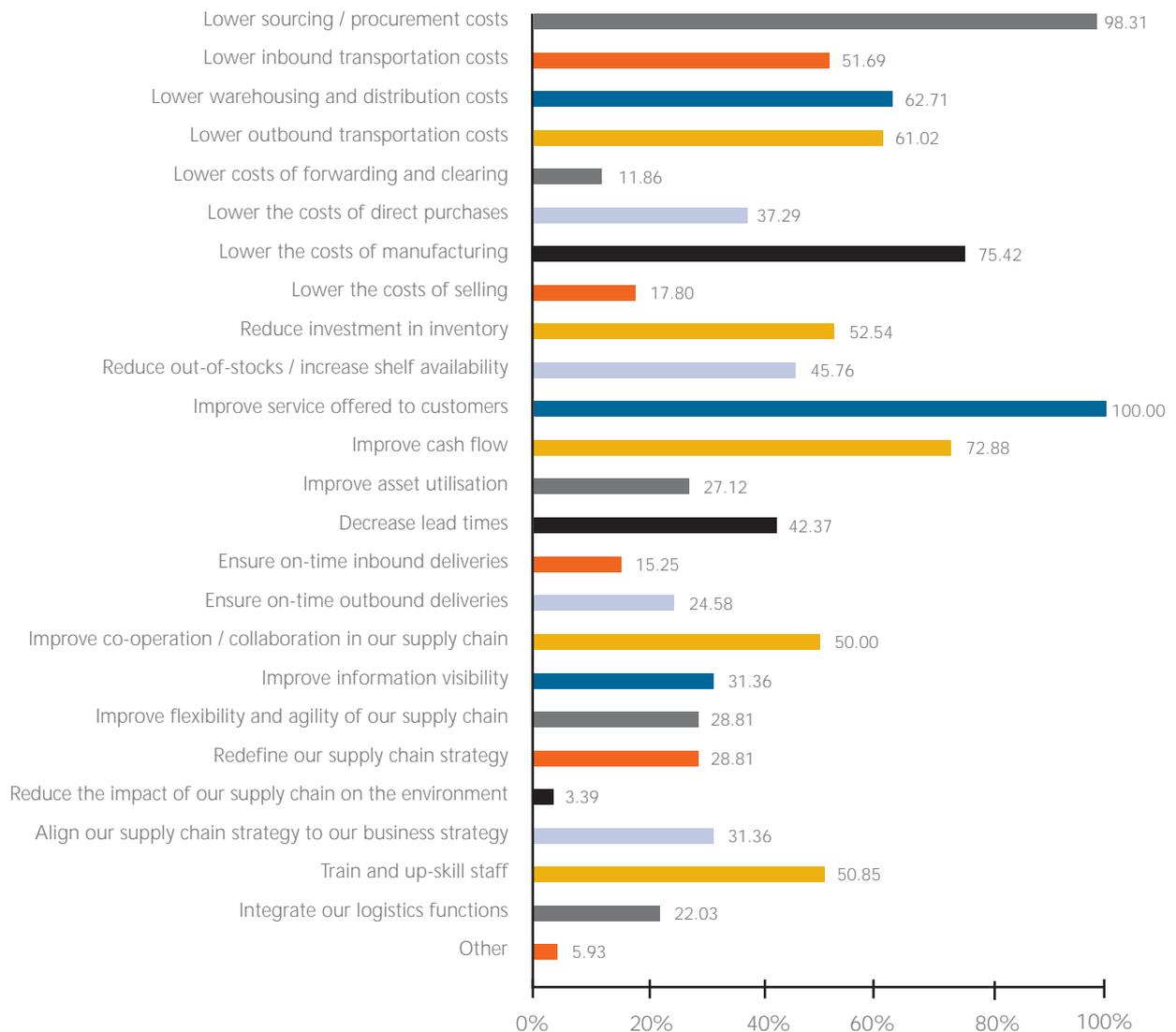
The differing views of CEOs and General Managers and supply chain management on the issue of service provision are also instructive. The CEOs view service provision being driven by both improved

performance and also a shortage of logistics skills (both 26.6%), while the supply chain management group believe external service provision is necessary to reduce costs and to improve performance (both 41.6% of respondents). This difference in emphasis shows that business leadership has a more strategic view of the role of external value chain

partners, particularly in filling the skills gaps. The relative lack of the CEOs' belief in the skills levels in their own companies is also highlighted by this being the second most important challenge to their companies meeting stated supply chain objectives.

► Supply chain objectives

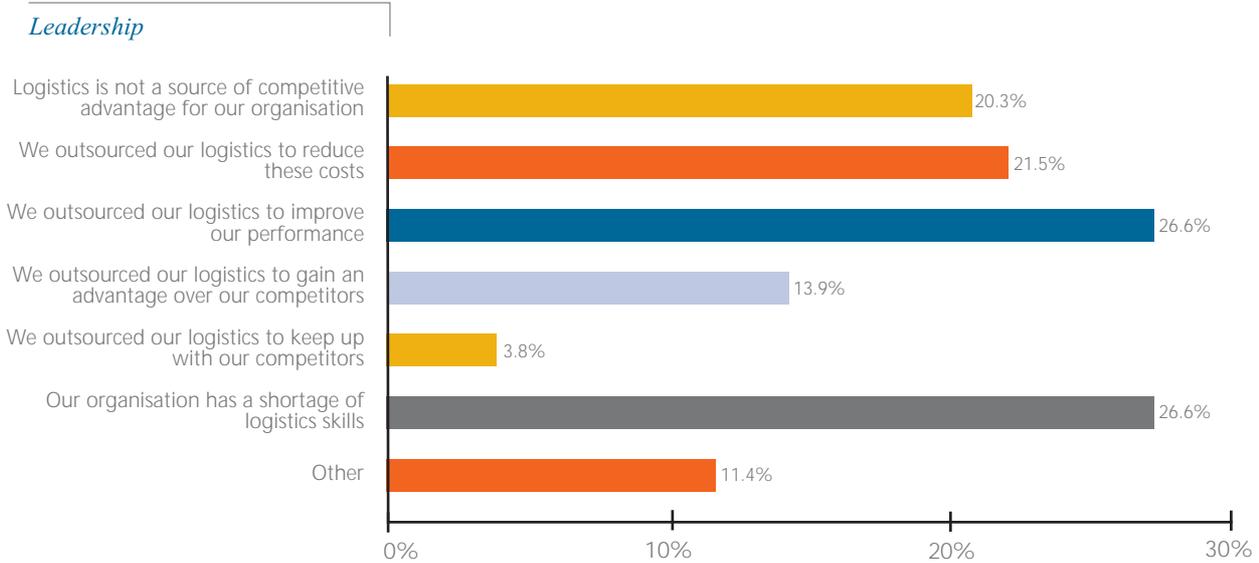
Leadership



Section Two

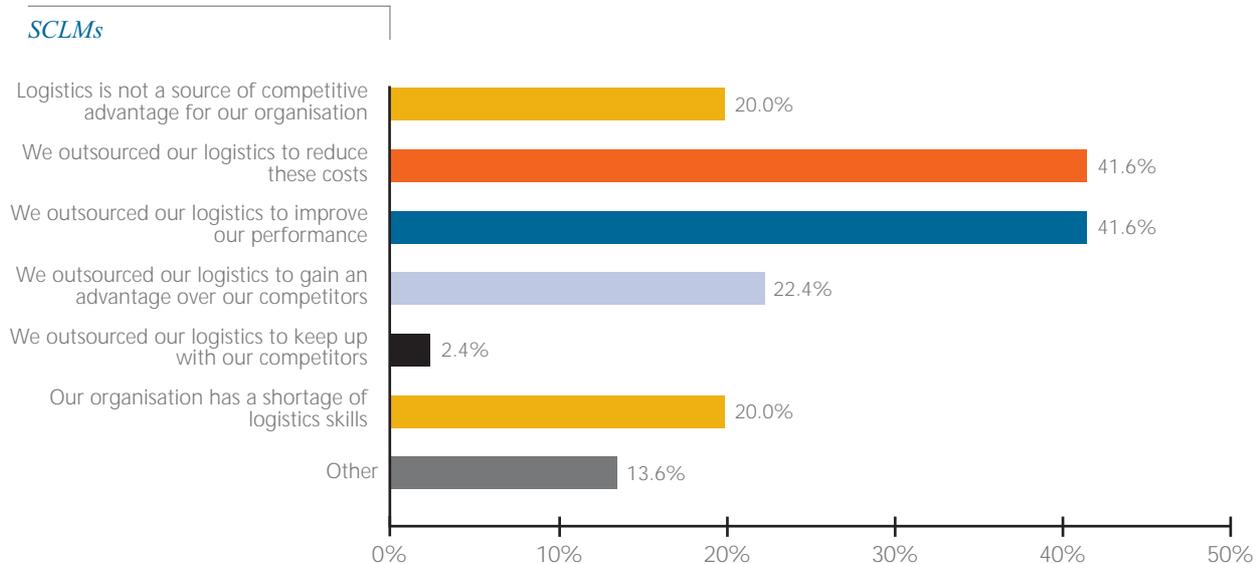
- Which of the following statements most closely reflect your organisation's reason(s) for using logistics service providers?

Leadership



- Which of the following statements most closely reflect your organisation's reason(s) for using logistics service providers?

SCLMs



Migrating to **Quadrant 4** in a skills deficient environment

will pose problems for many.

Section Two

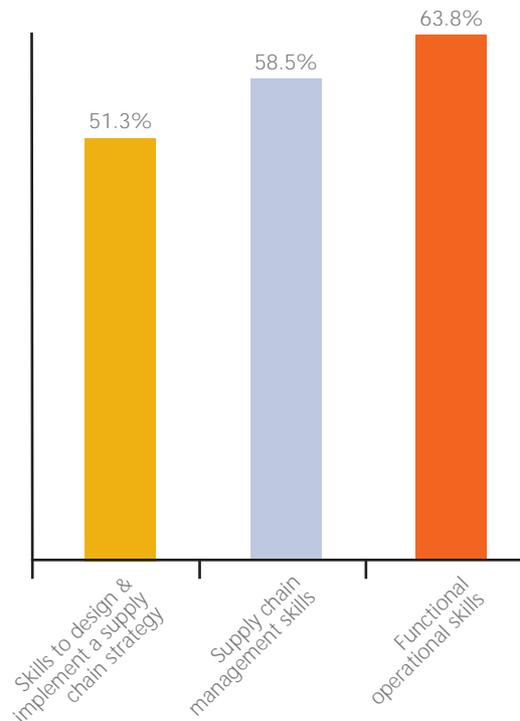
Locating and Filling the Skills Gap

When quizzed on the specifics of the skills shortages, the main sample group identify the biggest shortage of skills at a functional, operational supply chain level (64%), followed by supply chain management skills and finally skills to design and implement a supply chain strategy, at 59% and 51% respectively. At the strategy design and

implementation level, the corrective action of 28% of the whole sample group is to train and educate existing resources, appoint external consultants (20%) and to recruit staff (13%). For the supply chain management level, fully 43% of the group will educate and train existing resources, followed by 20% who will recruit skills, and only 9% who would use consultants. Finally, at the operational level, 54% will focus on upskilling resources, and 13% on recruiting.

- At what level does your organisation experience a shortage of supply chain skills?

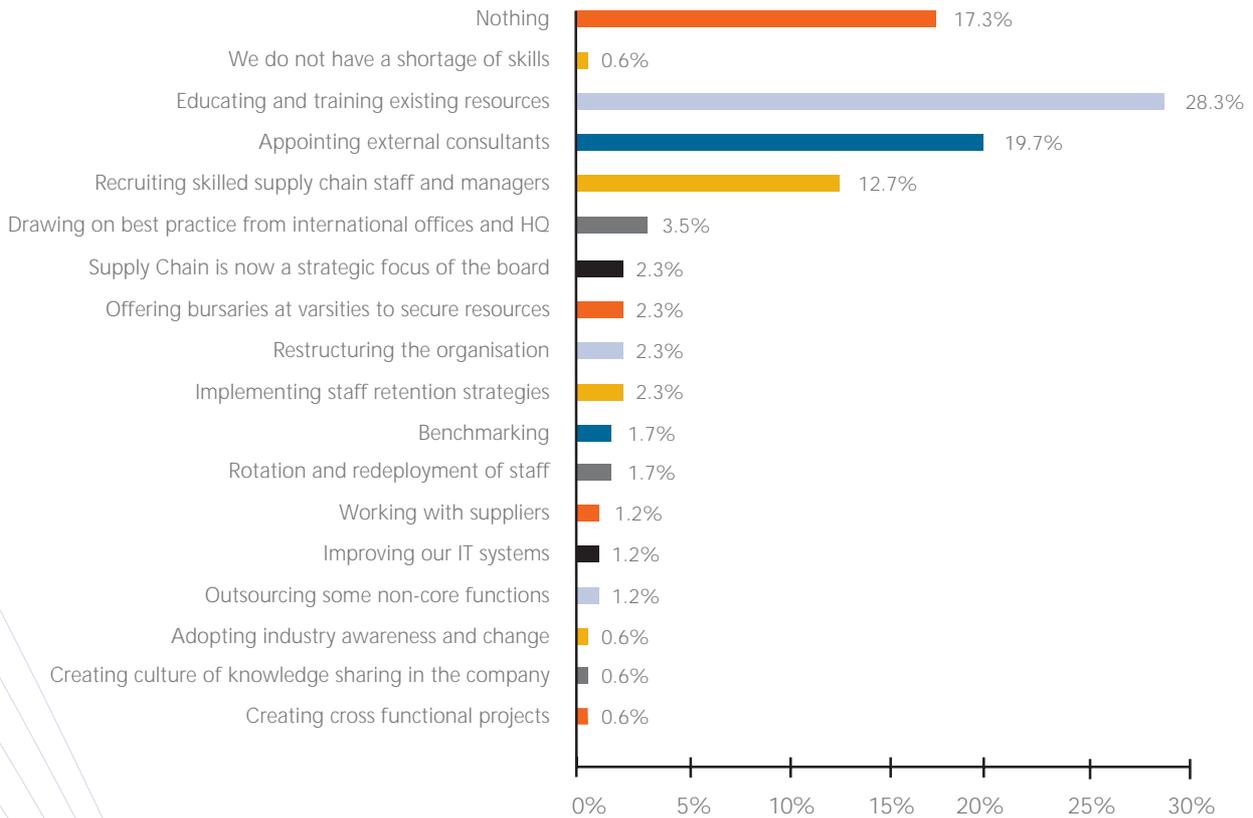
Total Sample



Section Two

- What actions are your organisation taking to address the shortage of supply chain skills at the strategy design and implementation level?

Total Sample



Education is seen as the main action to address the skills shortage. But it is a medium term solution.

Section Two

- What actions are your organisation taking to address the shortage of supply chain skills at the supply chain management level?

Total Sample

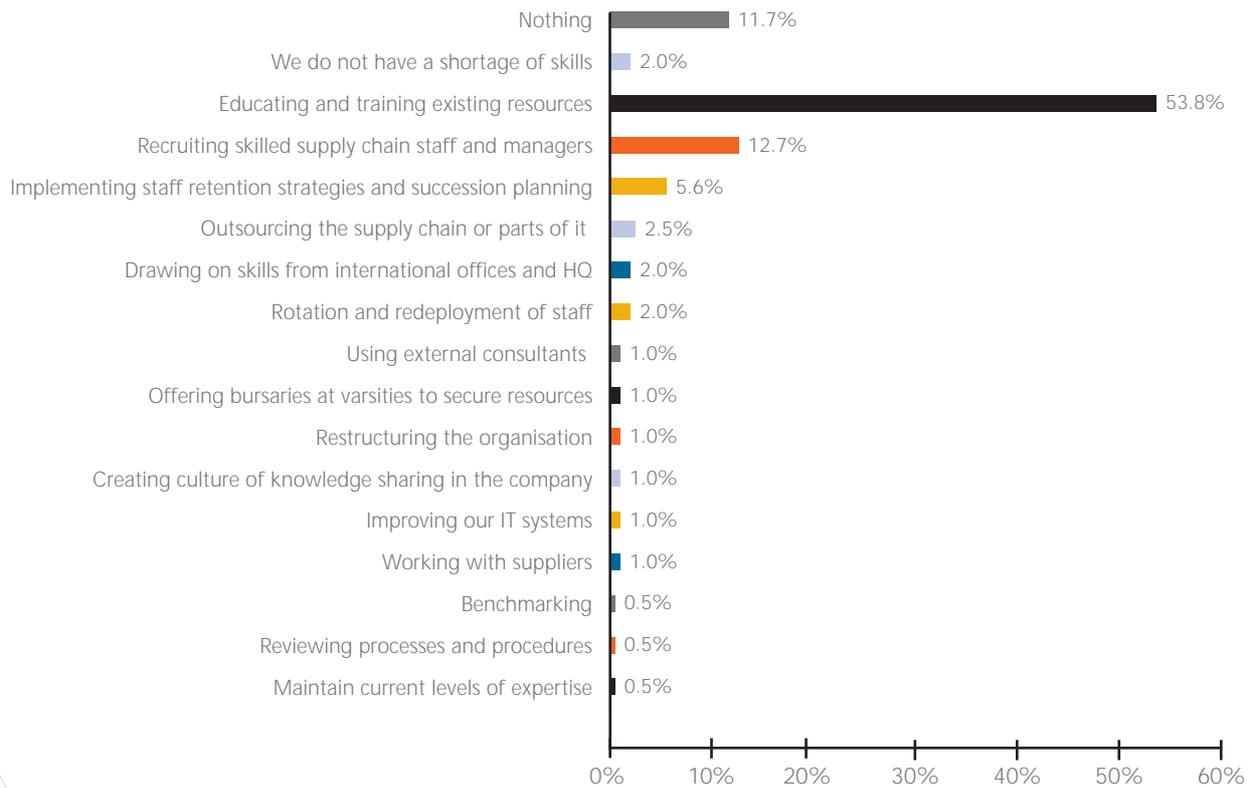


Recruitment, and the use of external consultants are seen as important short term methods of bolstering skills levels.

Section Two

- What actions are your organisation taking to address the shortage of supply chain skills at the functional operational level?

Total Sample



By strong contrast, the successful Quadrant Four companies take a very different view of coping with the skills gaps.

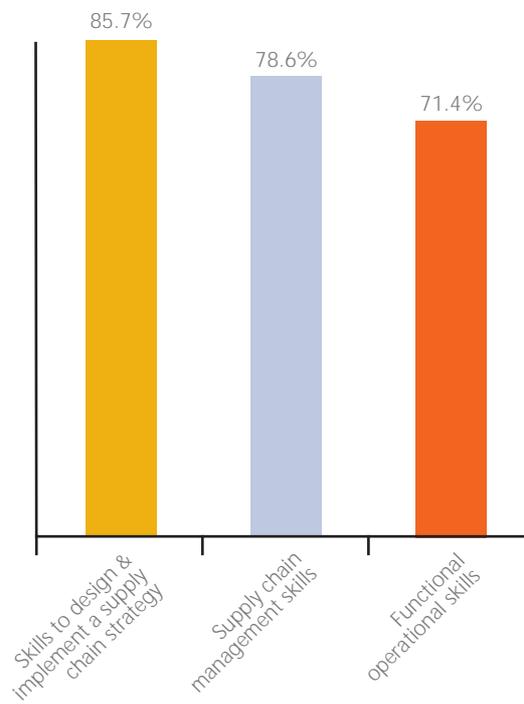
Section Two

The biggest skills shortage perceived in Quadrant Four is exactly the opposite of the general sample, with 86% of respondents claiming a shortage of skills to design and implement a supply chain strategy. Fully 79% of the group feel supply chain management skills are in short supply, and 71,4% feel the lack of operational skills. Their approach to corrective action is also instructive. At the strategic design and implementation

level, 40% feel that education and training is needed, followed by 20% who go for recruitment. None of the group wishes to appoint external consultants for this requirement. At the supply chain management level, education and training is the route for 62% of respondents. At operational level, 57% wish to train existing staff, and 14% wish to recruit.

► At what level does your organisation experience a shortage of supply chain skills?

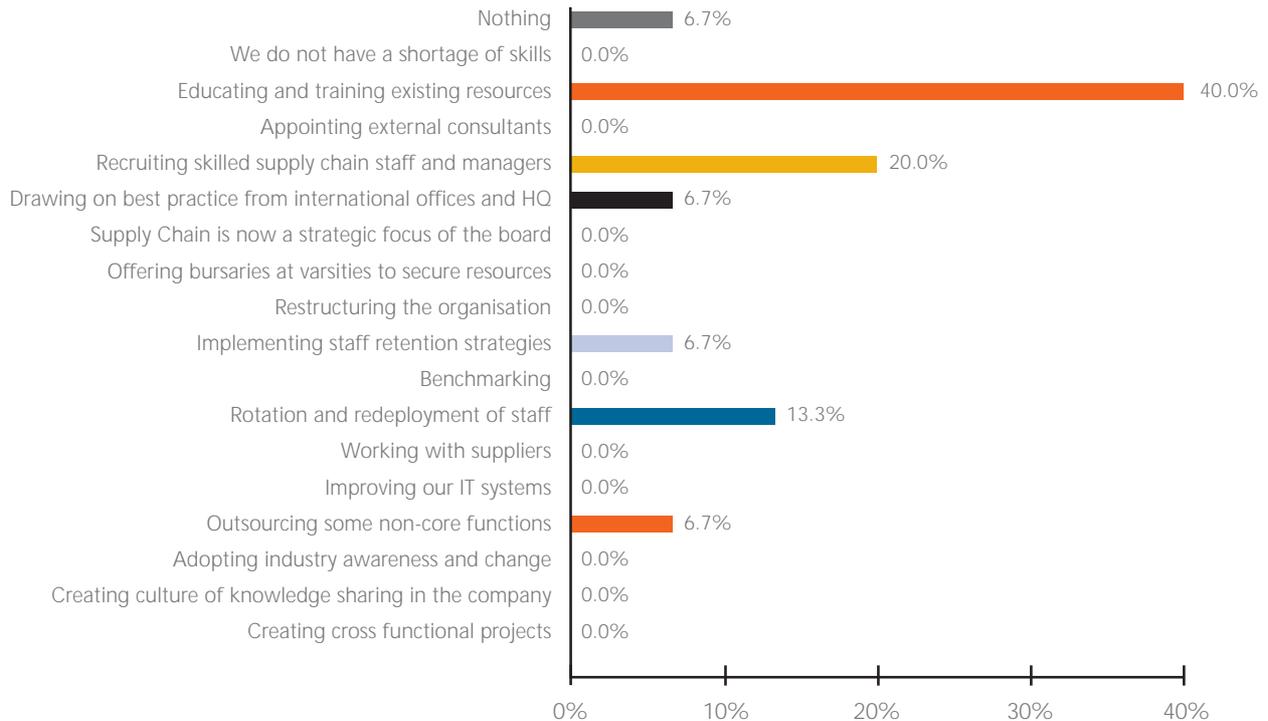
Quadrant 4



Section Two

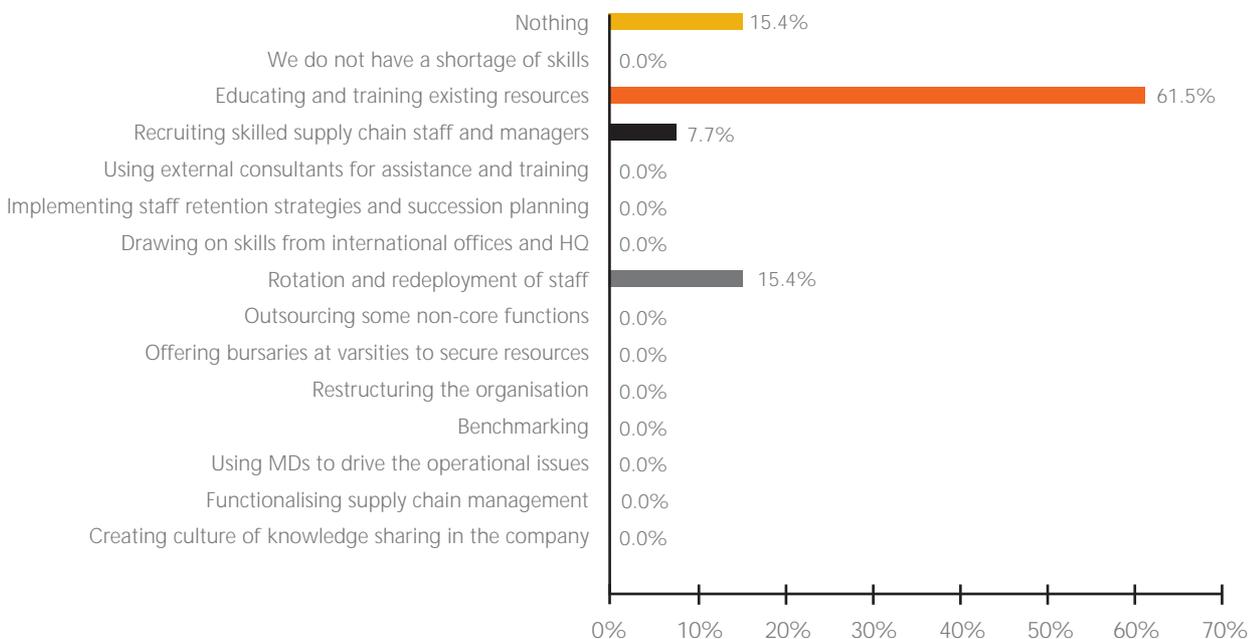
- What actions are your organisation taking to address the shortage of supply chain skills at the strategy design and implementation level?

Quadrant 4



- What actions are your organisation taking to address the shortage of supply chain skills at the supply chain management level?

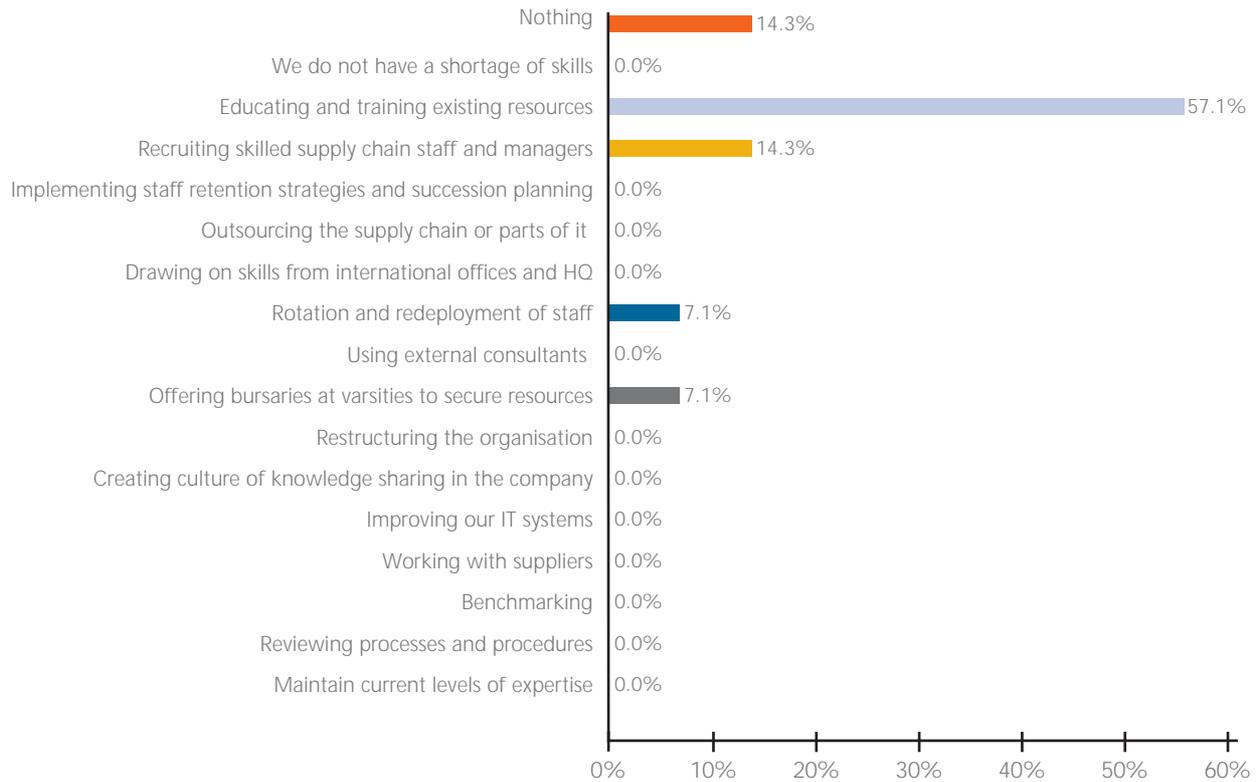
Quadrant 4



Section Two

- What actions are your organisation taking to address the shortage of supply chain skills at the functional operational level?

Quadrant 4



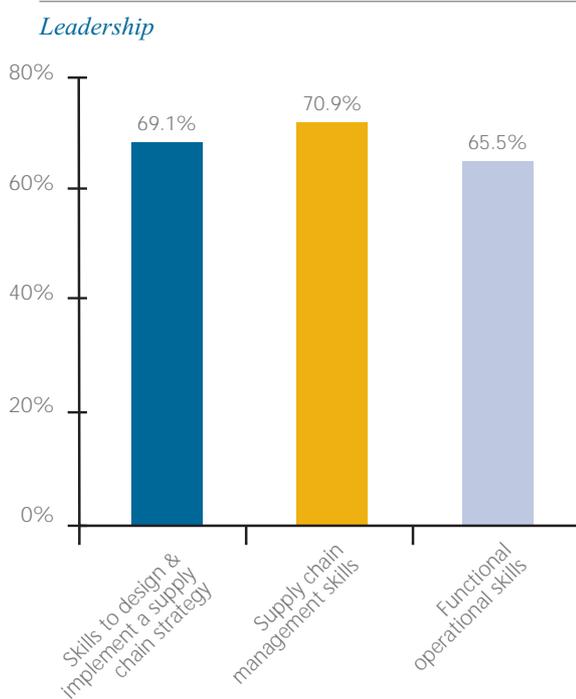
What is most notable is the higher levels of the Quadrant Four responses who feel there is a skills shortage, and that they feel it most in the most strategic area of their supply chain.

An interesting and instructive comparison on the skills question is that of the views of company business leadership on one hand, and supply chain management on the other. CEOs and General Managers see the largest shortage as in supply chain management, at 71% of the sample, followed by the shortage of strategic design and implementation skills

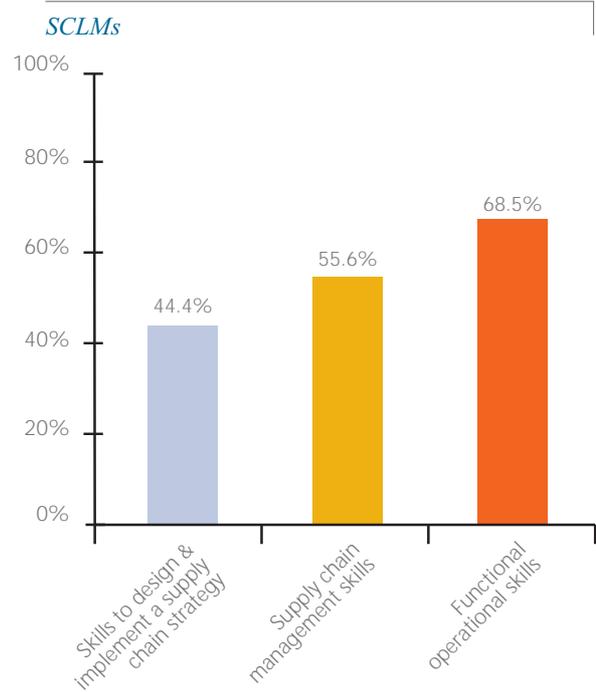
(69%). A relatively low proportion of 66% see the shortage as being functional or operational skills. The views of supply chain management on the same issue follow the trend of the main analysis, as might be expected. This relates back to the CEOs lack of confidence in the organisation having the right skills internally to deliver effective supply chain reform, and thus taking a more strategic view of the outsourcing process to compensate for the skills gaps.

Section Two

► At what level does your organisation experience a shortage of supply chain skills?



► At what level does our organisation experience a shortage of supply chain skills?



Senior leadership support for the increases in 4PL outsourcing we have seen happening in the sample this year is a direct result of their views that they

face serious shortages at high levels, and that the consequent outsourcing will yield competitive advantage.

Supply chain and logistics managers believe that the greatest shortage is of functional skills.

Quadrant 4 disagree. They believe the biggest shortage is of design and implementation skills.

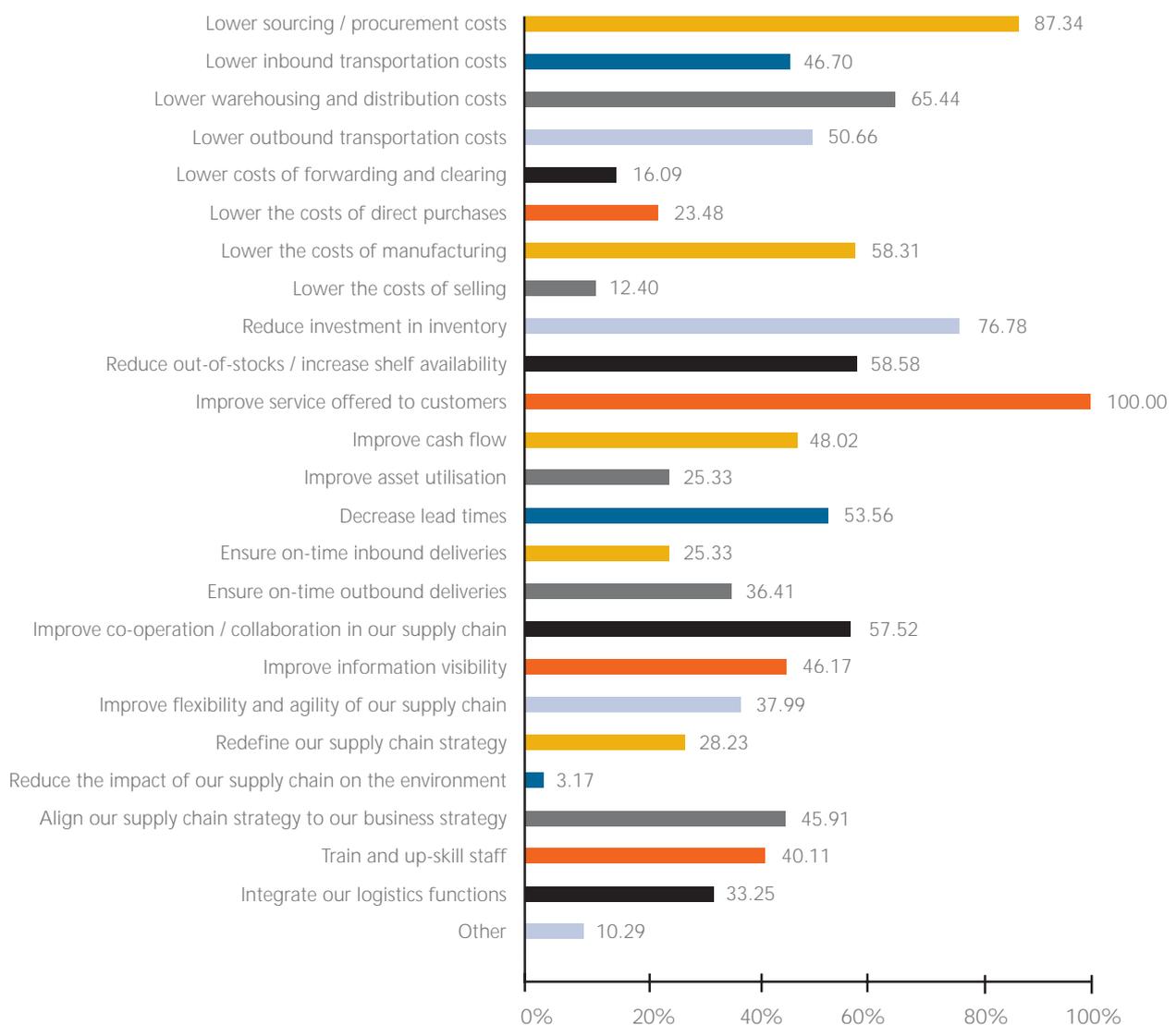
Trendwatching: Challenges and Objectives for the South African Supply Chain

When we roll up these findings for the quadrants into the objectives and challenges of the whole sample group, we find a markedly different picture from that of the most successful Quadrant Four. The top five objectives for the whole sample are:

- Improving service to customers
- Lowering sourcing costs
- Reducing investment in inventory
- Lowering warehousing and distribution costs
- Increasing availability

► Supply chain objectives

Total Sample



Section Three

The cost focus in these objectives reflect a need to control supply chain processes that are steadily growing in size and complexity as globalisation continues. Gone are the focuses on information visibility and integration we saw as major goals for the most successful companies in the sample.

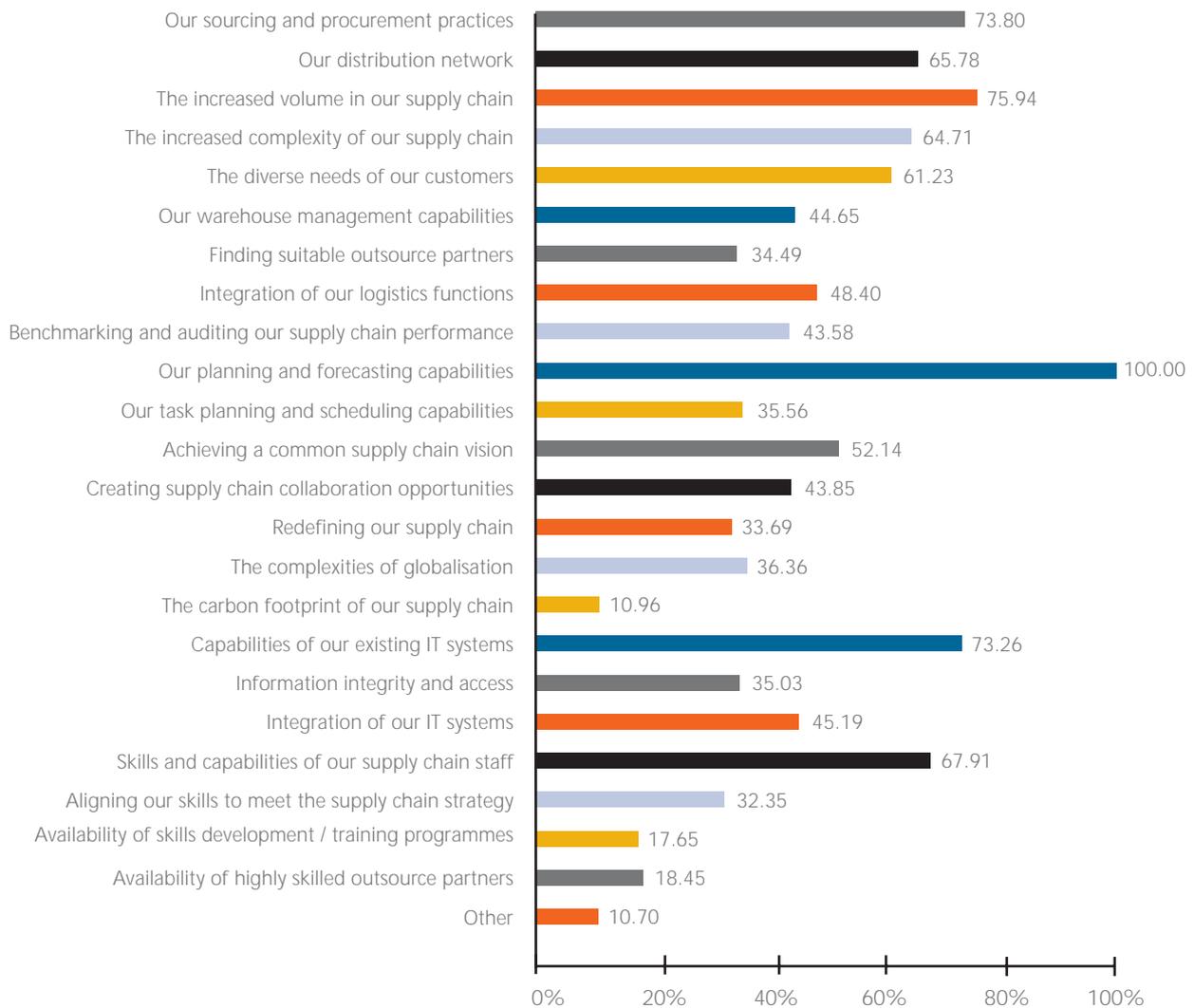
The top five challenges are dominated by what may be interpreted as fear – fear that the current capabilities, in IT and staff skills in particular, are not up to meeting the challenge of planning and forecasting for a far more complex value chain with much more volume.

The challenges are:

- Planning and forecasting
- Increased volume in the supply chain
- Sourcing and procurement practices
- Capabilities of existing IT systems
- Skills and capabilities of supply chain staff

► Challenges to meeting the objectives

Total Sample

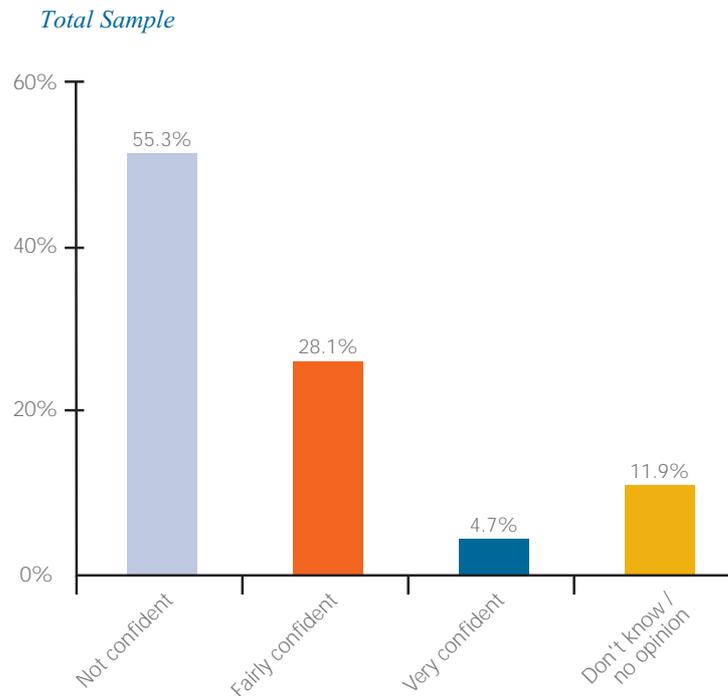


Section Three

One crucial aspect that emerges strongly here is the skills issue for SA companies in particular. This has been on the **supplychainforesight** radar in previous years, but with the increase in both volume and complexity brought about by globalisation, the skills issue assumes even more urgency now. We deal with the response of the different quadrants to the question in our section on skills.

One other notable aspect to emerge from the main analysis is a fairly insular, even indifferent, response to public sector activities in the national supply chain. The majority of companies (55%) still have no confidence in Transnet delivering service level improvements for industry in the future, despite the parastatals recent profitability improvements.

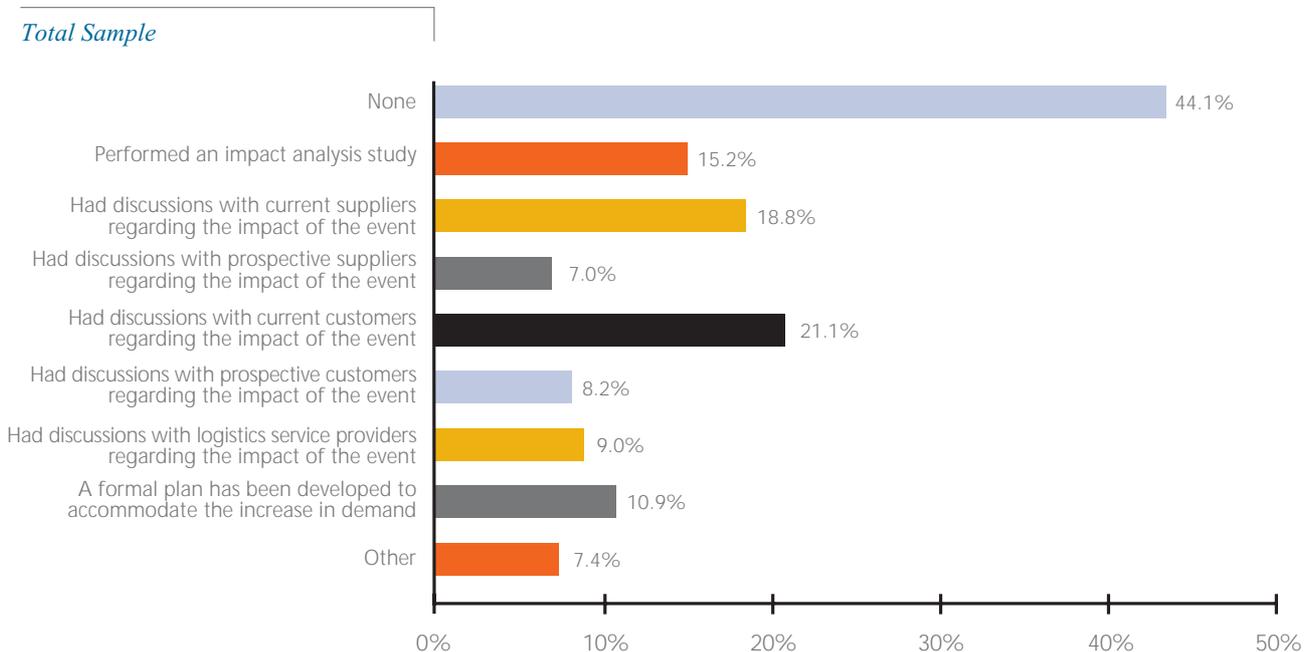
► How confident are you that Transnet will yield the expected cost savings and service level improvements to the supply chain?



Despite many companies feeling that the 2010 World Cup will have a moderate to strong impact on the

country's supply chain, 44% of companies have no plans to take action to prepare for it!

► What actions has your organisation made to prepare for the impact of 2010 thus far?



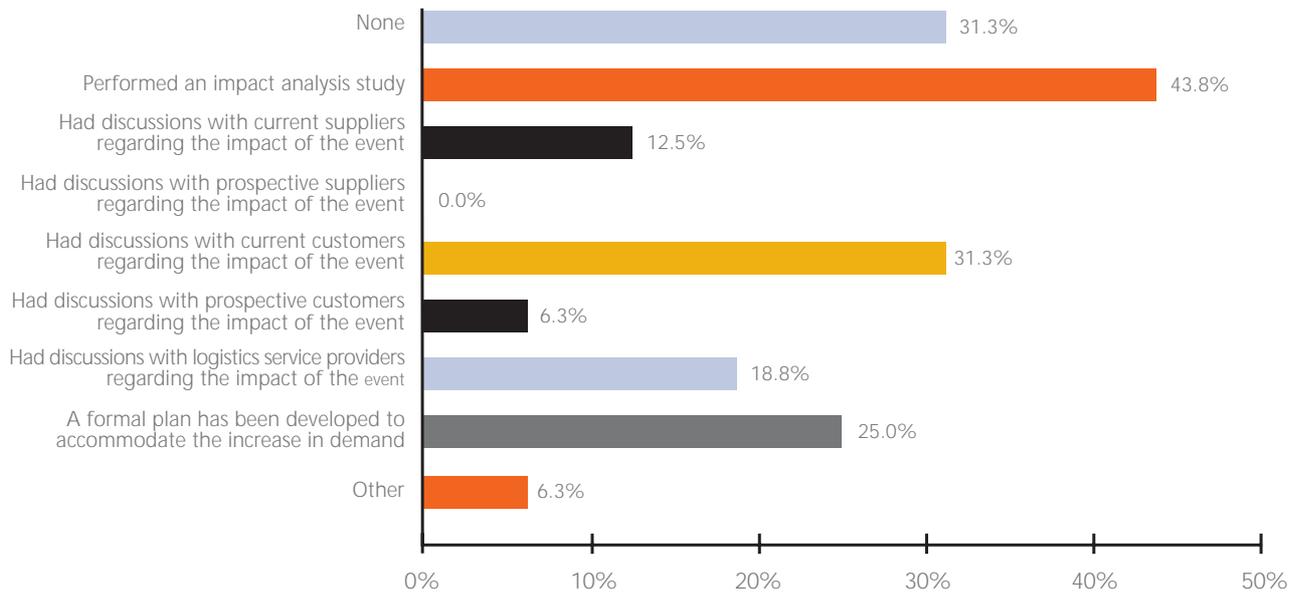
Section Three

This is notably different in the case of the Quadrant Four companies, of whom 44% have either conducted an impact

study on the changes in demand the event will bring, or have tabled a formal plan to cope with the change (25%).

► What actions has your organisation made to prepare for the impact of 2010 thus far?

Quadrant 4



The link between the public sector National Industry Policy Framework (NIPF) plans and the private sectors supply chains are also rather more deeply considered by Quadrant Four companies.

When the whole sample group was asked what impact the NIPF would have on supply chains over the next three years, almost 54% of respondents felt it would have little or no impact.

South African companies show low levels of confidence in

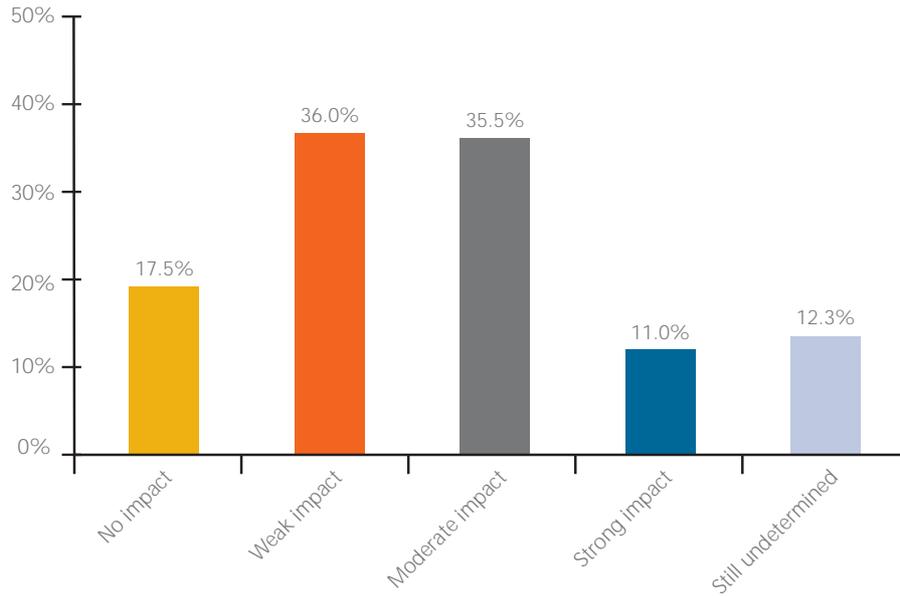
Transnets reform & in the NIPF process.

Urgent dialogue with government is required.

Section Three

- What level of impact do you expect the NIPF to have on your supply chain within the next 3 years?

Total Sample



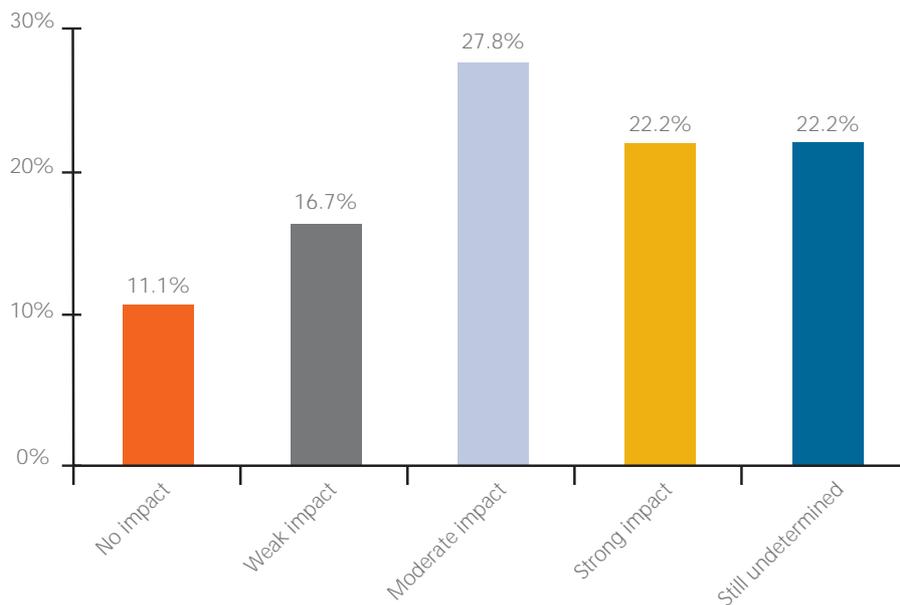
By contrast, 50% of the Quadrant Four respondents felt it would have a moderate to strong impact. The differences here not only confirm the

commitment to a more strategic view among fourth quadrant companies, but serve to indicate the continuing and potentially damaging disconnection

between government and business in SA.

- What level of impact do you expect the NIPF to have on your supply chain within the next 3 years?

Quadrant 4



Conclusion: Sustaining Success

It is clear in this year's analysis that the companies focusing on dealing with complexity through information visibility and process integration across their value chain are those who are reaping the profit and growth rewards. There is conclusive evidence that this approach, in the Quadrant Four companies, is leading to a virtuous cycle of effective and reliable supply chain activity, and a consequent ability to deal with the growth challenges and complexities inherent in a globalised sourcing and selling value chain scenario.

The lessons for companies in the other quadrants of our schema are clear: in a macroeconomic environment where global trade flows are an inevitable impact on the business, staying efficient in a relatively localised market, as in the Quadrant Two companies, will yield short-term benefits, but will, sooner rather than later, see competitors overtaking

you. The efficiencies and reliability of supply chain function exhibited by these companies, which makes them more profitable than most, will stand them in good stead for the shift into quadrant four and more global complexity, volumes and diversity in their value chains.

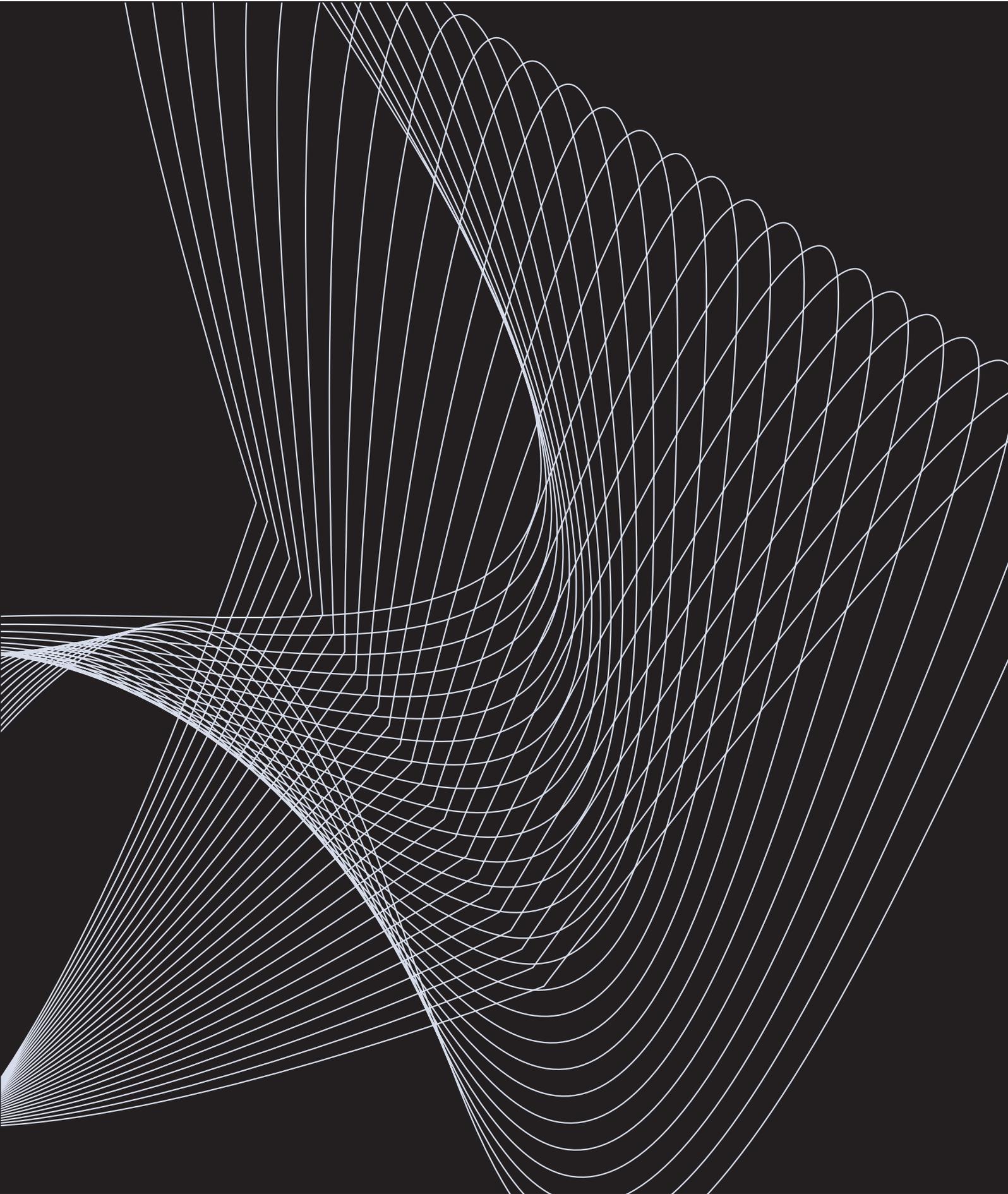
Among Quadrant One companies, a focus on competitiveness might most realistically be achieved by increasing supply chain capability. These companies are floundering in an undifferentiated and inefficient supply chain space. Trying to compete on a global stage without the necessary efficiencies will put them out of business.

Quadrant Three companies face the inverse problem. For these, usually large, businesses, competing globally has become an urgent necessity. But the tidal wave of global change has meant that they have embarked on a globalisation drive without the requisite supply chain capabilities to facilitate it.

Conclusion

The lesson for SA as a country is as clear: we do have the benefit of the relative efficiencies and capabilities our supply chain infrastructures exhibit in comparison with our peers in developing economies, as is clear from our rank of 24th in the world for trade logistics performance in the recent World Bank report. But there also needs to be a coherent strategic approach to dealing with the complexities of global competition in many different key industries.

Where companies acquire the skills and infrastructure to compete in complex environments and also develop the requisite sophisticated capabilities, they will do well in both growth and profitability. But for many South African companies, achieving this is a worry given the seeming lack of constructive collaboration between government and private enterprise. The government's dominance in key infrastructural areas such as railways, ports, and of course power provision requires an innovative and collaborative partnership between the public and private sectors, if more SA companies are to move into quadrant four and more effective global competitiveness.



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