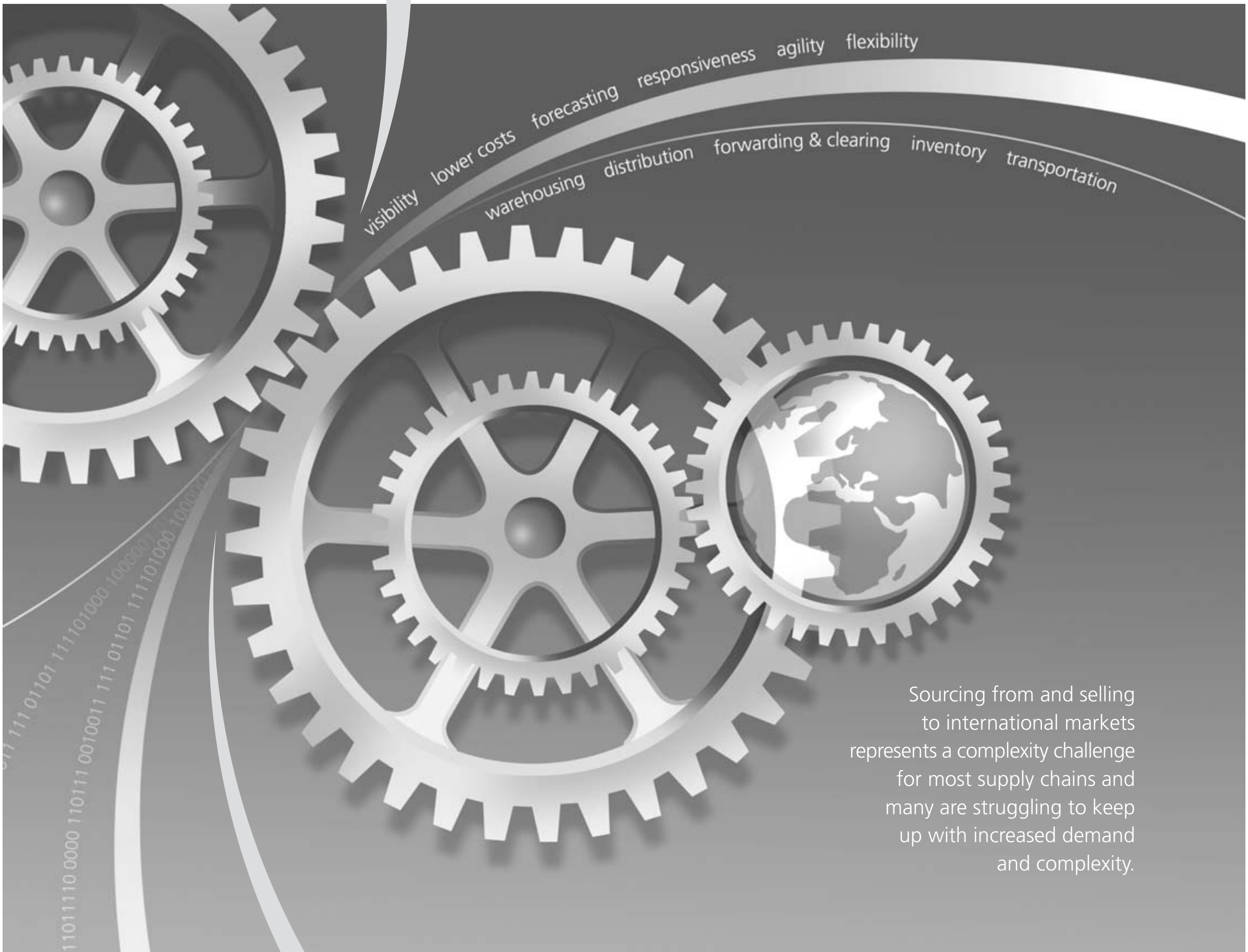
supplychainforesight 2007

Automotive Industry Report



Survey conceptualised and initiated by

Barloworld Logistics

Research Results

The 2007 **supply**chain**foresight** survey is a comprehensive, independent study of the issues facing the South African supply chain and logistics market.

Key Learnings 2007

In 2006, the national study of the South African supply chain industry, **supply**chain**foresight**, included an industry-specific report on South Africa's Automotive industry, as part of a set of industry-based analyses. The interest from the Automotive sector last year has led to a refinement of the research for the sector this year.

In industry terms, the Automotive sector provides a good spread of representation from senior executives, split between CEOs/General Managers (CEOs), at 40% of the sample, and Supply Chain and Logistics Directors/Managers (SCLMs) at 60% of the sample. A total of 67% of the sample came from companies with over R1bn in annual turnover, thus providing a high quality of opinion from the sector once more.

Figure 1 Job Title/Function

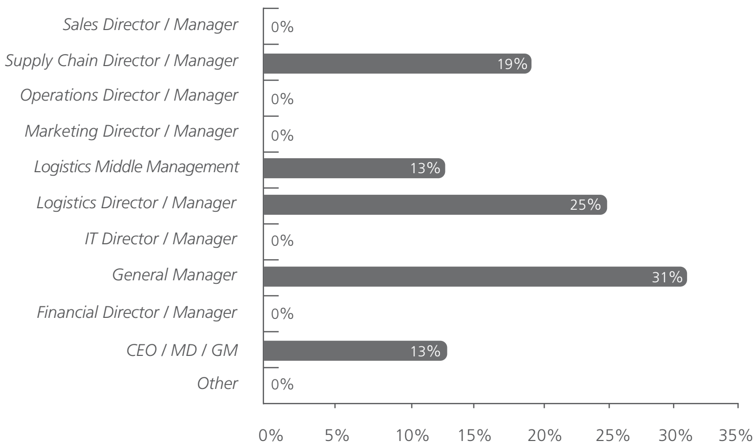
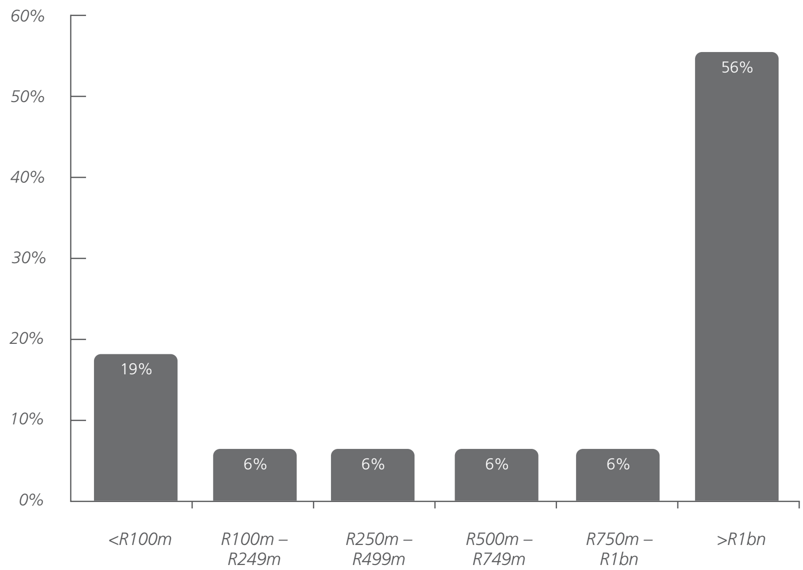


Figure 2 Size of your company (by annual turnover)



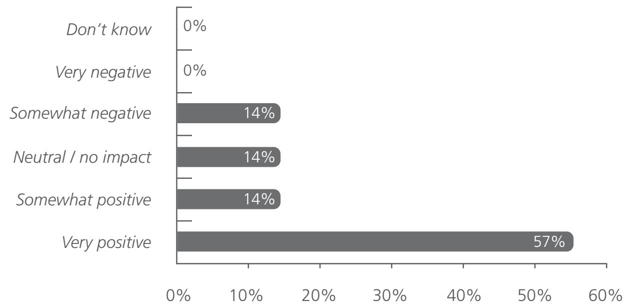
In general terms, the sector remains in possession of South Africa's most advanced industry supply chain. Despite this, the pressures on the sector remain the same as for the general supply chain picture across industries this year – the drive to increase service levels and cut costs, while dealing with the increased demands of added complexity and volumes in the local and global economies.

Globalisation and Industry Leadership

A full 71% of the CEO respondents in the Automotive sample group profess to be affected by globalisation, and the same amount view the impact of globalisation in the next three years as positive.

Figure 3 **What impact will globalisation have on your organisation within the next three years?**

CEOs, MDs and GMs



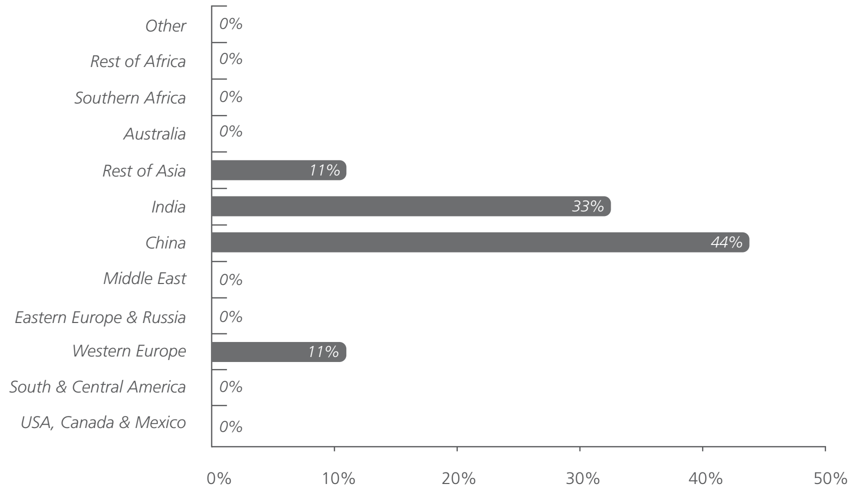
71%

of CEOs believe that globalisation will have a positive impact on their businesses within the next three years

India and China represent the biggest regions of competition for the sector, by far. This is in line with the general picture, but there is no competition at all from North America, and relatively little from Europe.

Figure 4 **From which regions do you expect significant competitors to emerge within the next three years, that will compete in your industry in SA?**

CEOs, MDs and GMs



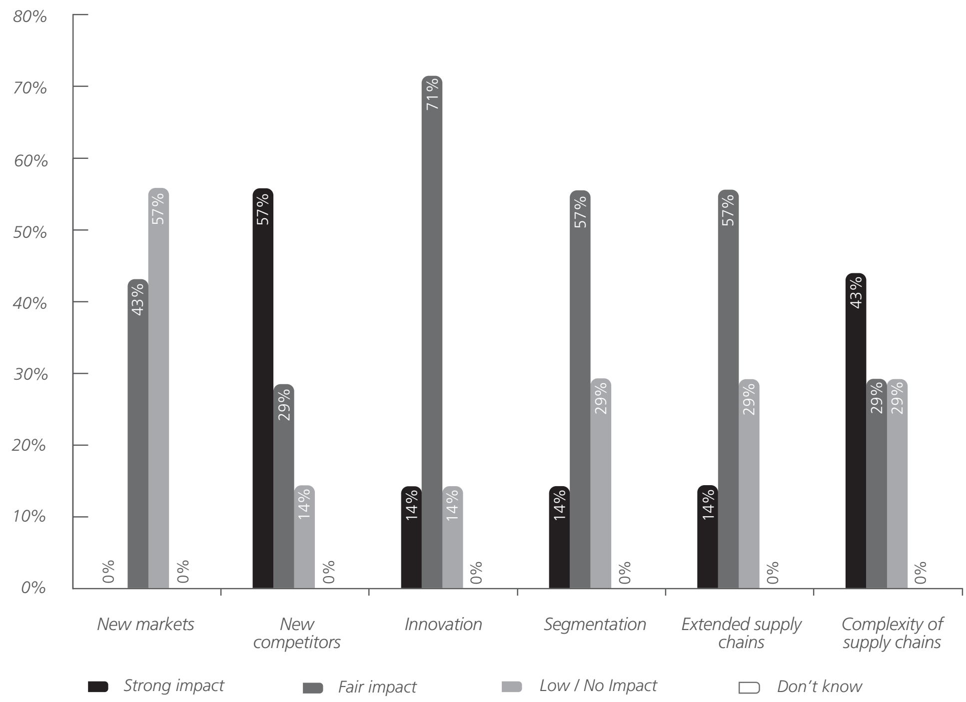
The main areas of the impact of globalisation expected by automotive leadership are the possibility of new competitors in an already competitive market, and a market dependent on effective supply chains for protecting and extending market share. Automotive CEOs also expect a new global challenge from the additional complexity of supply chains which increased globalisation will bring.

72%

of CEOs believe that globalisation will have a fair to strong impact on the complexity of their supply chains

Figure 5 **To what extent will globalisation impact your business in terms of:**

CEOs, MDs and GMs

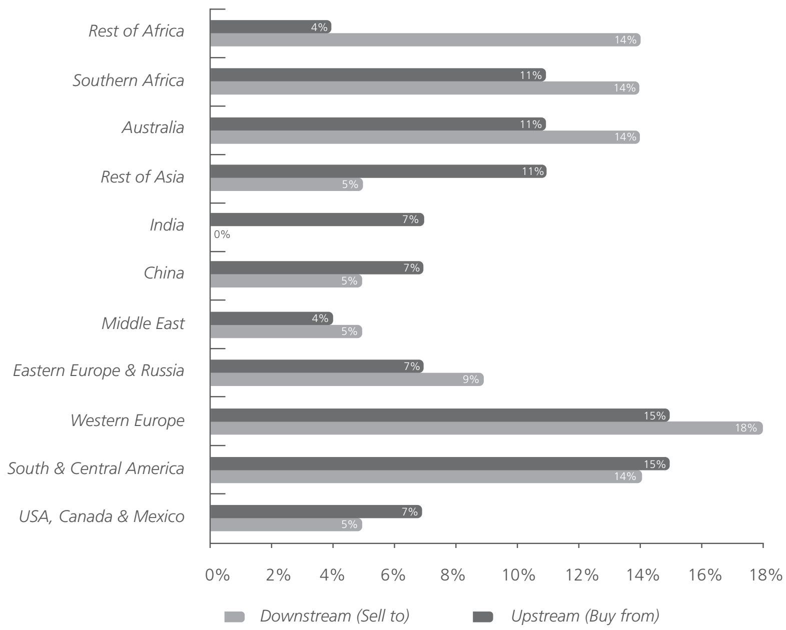


When asked in which regions of the world Automotive CEOs are doing or are planning to do business, the truly global nature of the industry in SA is revealed. The dominant region is Western Europe, followed by Africa, Southern Africa, Australia and South and Central America for downstream, or export business.

The major regions of upstream or import business for the industry come from Western Europe and South/Central America. This well-established export footprint, in particular, shows how effective and efficient the SA Automotive supply chain has become, faced as it is with our geographical remoteness from many of these locations.

Figure 6 In which region(s) do you currently or plan to do business?

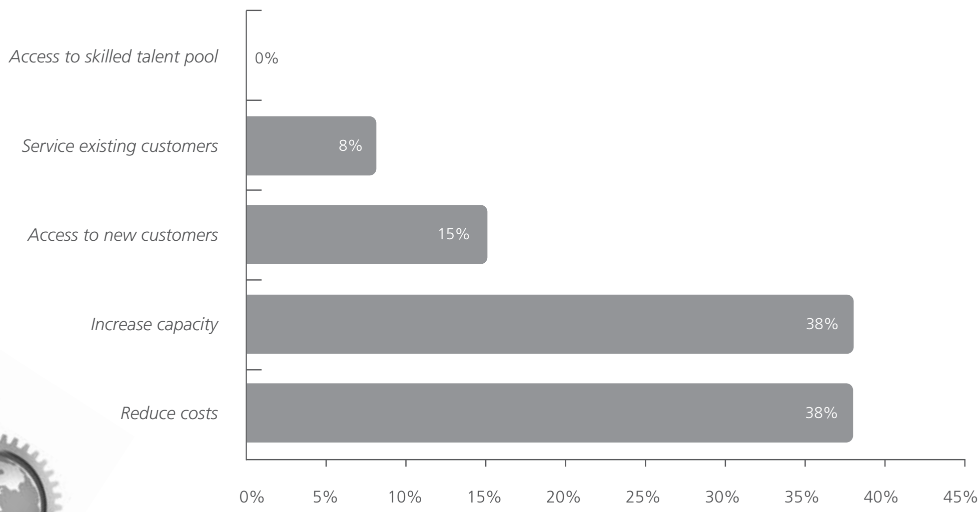
CEOs, MDs and GMs



Automotive CEOs, like their Retail counterparts, are being driven to do business globally in order to increase capacity and reduce costs, presumably through the sourcing of cheaper parts. Both these main drivers indicate a healthy and robust industry gearing for further growth.

Figure 7 Which of the following reasons drove/are driving your decision to do business globally?

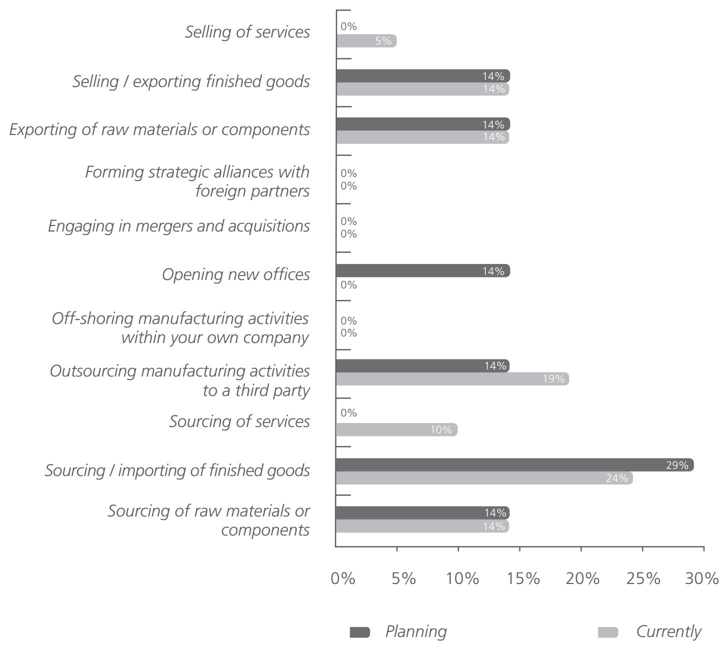
CEOs, MDs & GMs



When asked which actions Automotive CEOs plan to take in their global strategies in the next three years, the industry again demonstrates its early-mover supply chain status and relative maturity as a globalised sector. Where many other industries are in the planning phases of establishing a global presence – seeking alliances with foreign partners, for instance – the Automotive sector focuses predominantly on import and export activities, both of finished goods and raw materials.

Figure 8 **Which of the following actions is your organisation currently and/or planning to take globally within the next three years?**

CEOs, MDs and GMs

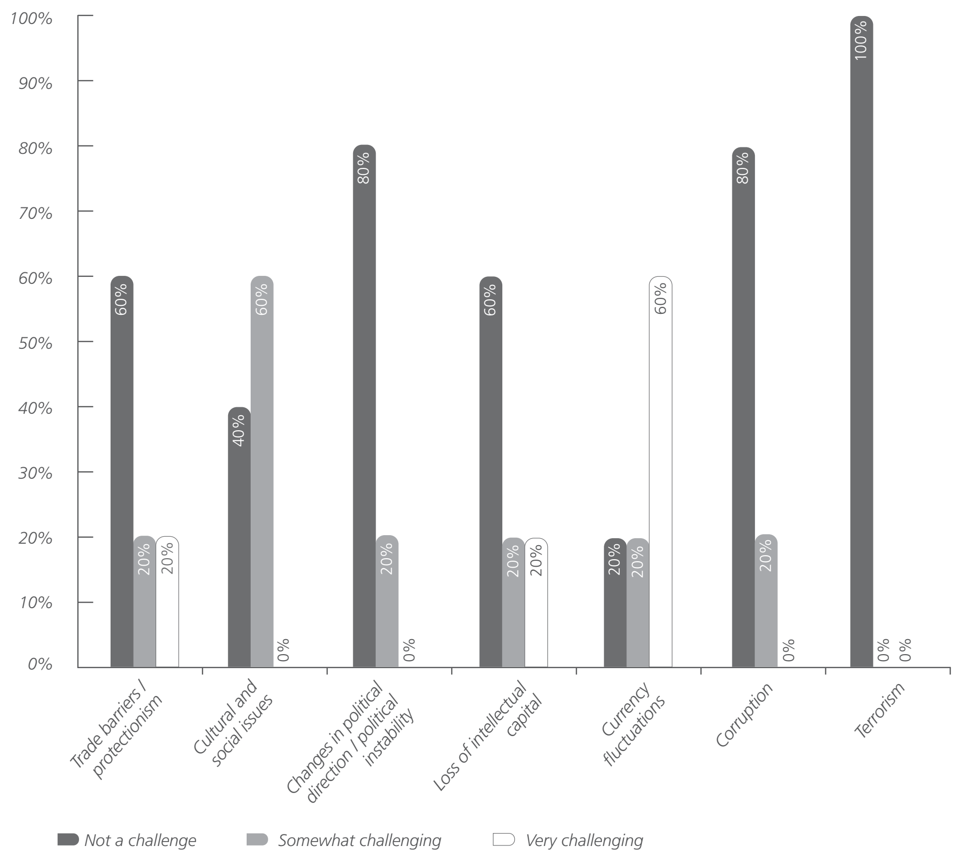


The challenges of sourcing and selling globally show both similarities and differences to the general picture. Trade barriers, loss of intellectual capital and currency fluctuations are the main challenges to sourcing globally. Challenges to selling globally are once more currency, but also a much stronger response for trade barriers – perhaps a reflection on the dominant export markets, such as Western Europe, being under some form of trade protectionism. Currency fluctuation as a factor is in common with the general report, and is part and parcel of having an unregulated, free market currency.

Key Learnings 2007

Figure 9 **How challenging do you consider the following to be in terms of sourcing globally?**

CEOs, MDs & GMs

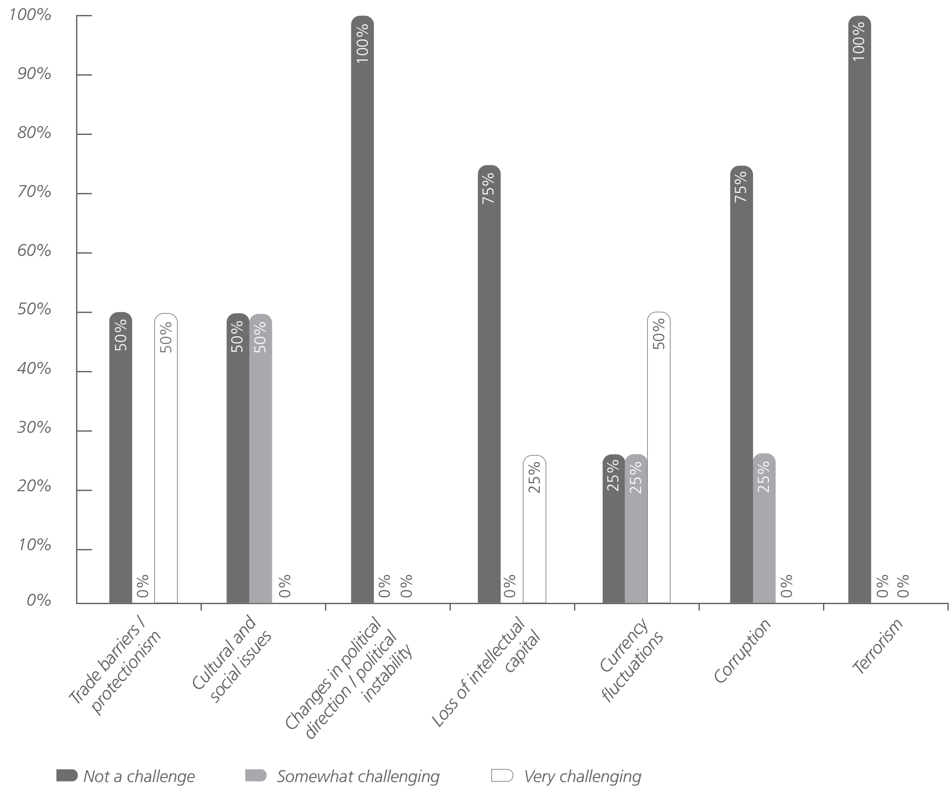


80%

of CEOs view currency fluctuations as a challenge to sourcing globally

Figure 10 CEOs, MDs & GMs

How challenging do you consider the following to be in terms of selling globally?



50%

of CEOs see **trade barriers and protectionism** as big challenges to selling globally

As far as objectives for their supply chains are concerned, Automotive CEOs are totally focused on reducing costs and improving service levels, especially reducing sourcing/procurement and warehousing/distribution costs. The highest-rated challenges demonstrate an acute understanding of the business benefits in their industry of a more effective supply chain, particularly an understanding that, while planning and forecasting is a perennial challenge, it is further complicated by increased complexity and the diversity of the industry's more global customer base.

Figure 11 Supply chain objectives for the next year

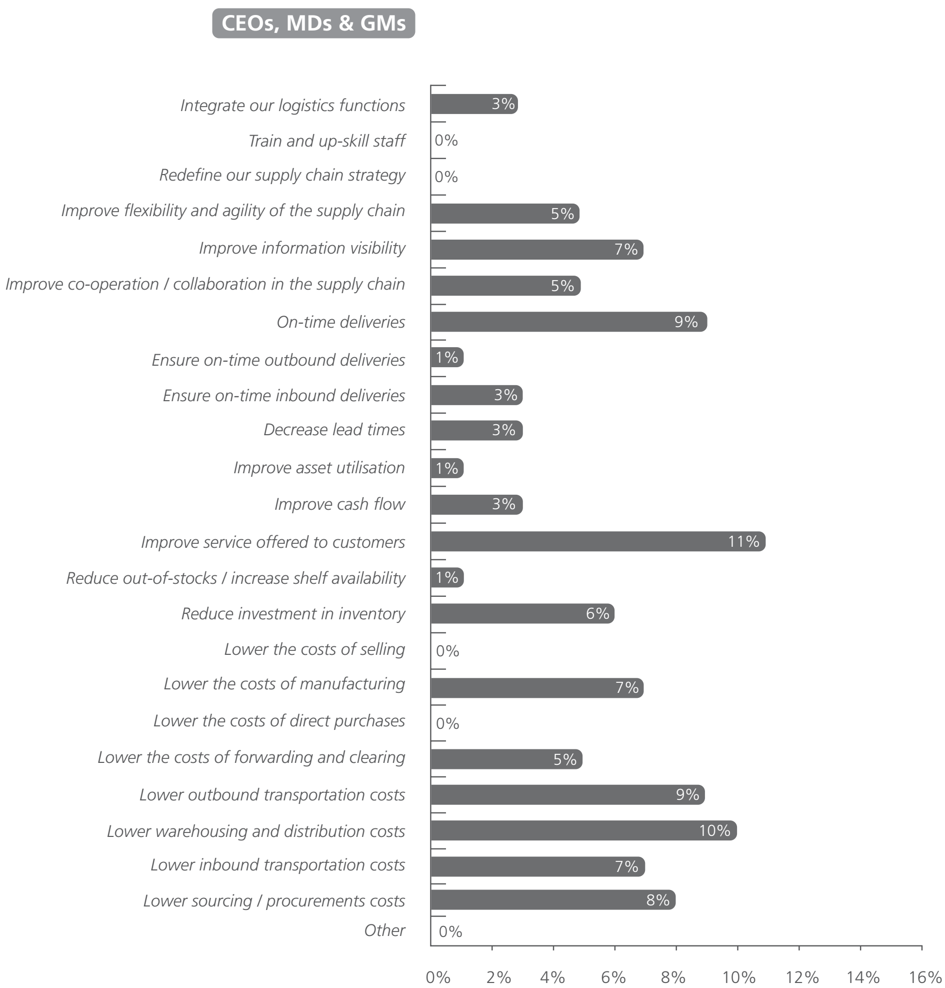
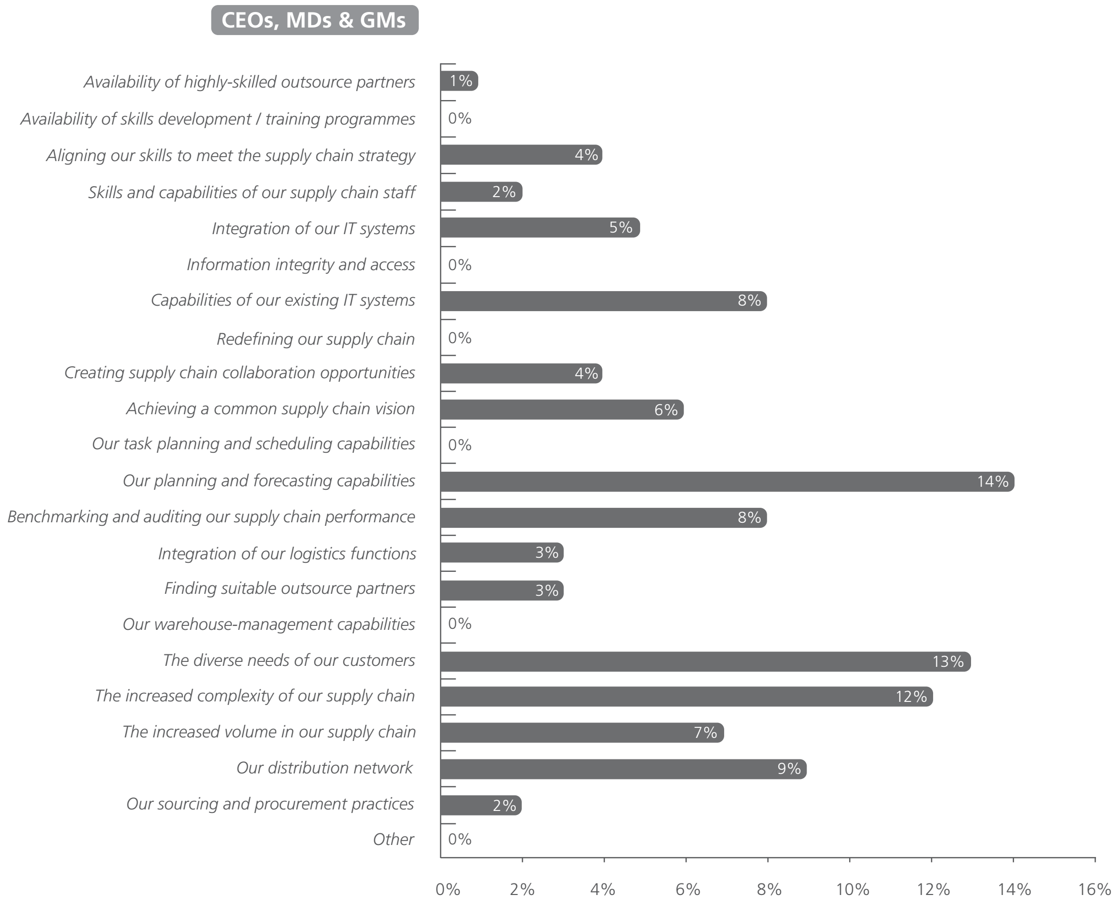


Figure 12 Challenges to meeting the supply chain objectives



Automotive CEOs rate the highest of any sector in terms of their view of the alignment between the business strategy and the supply chain strategy, and are also mostly key participants in strategy formulation. These findings reflect the central strategic importance given to the supply chain in the industry.

Figure 13 How aligned is the supply chain strategy to the business strategy?

CEOs, MDs & GMs

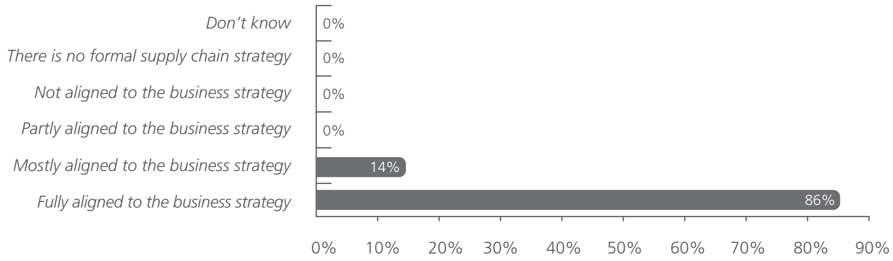
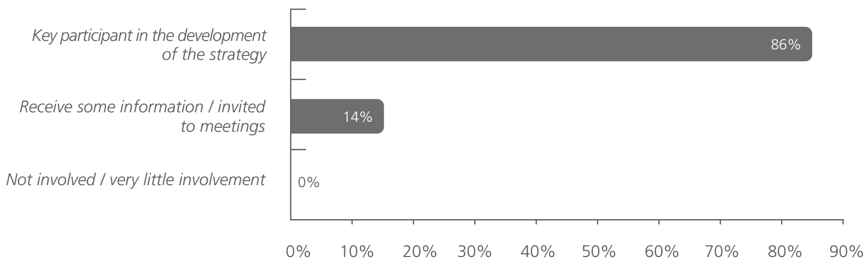


Figure 14 How involved are you in developing the supply chain strategy?

CEOs, MDs & GMs

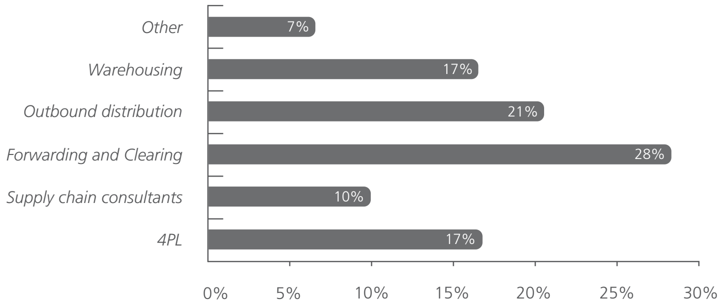


Making a Good Supply Chain Better

The overall picture of the SCLM group in Automotive confirms that this is one of SA's most advanced supply chains. A good indicator of this is that, from having had a fairly DIY attitude to supply chain management in our 2006 study, with almost 50% of respondents considering it better to manage their supply chain themselves rather than outsourcing aspects of the management of it, there is a marked tendency this year to work with supply chain consultants and 4PL service providers. The 17% of Automotive SCLMs who use 4PL companies far exceeds the 4% of the general sample who do the same.

Figure 15 **What type of service providers does your organisation use?**

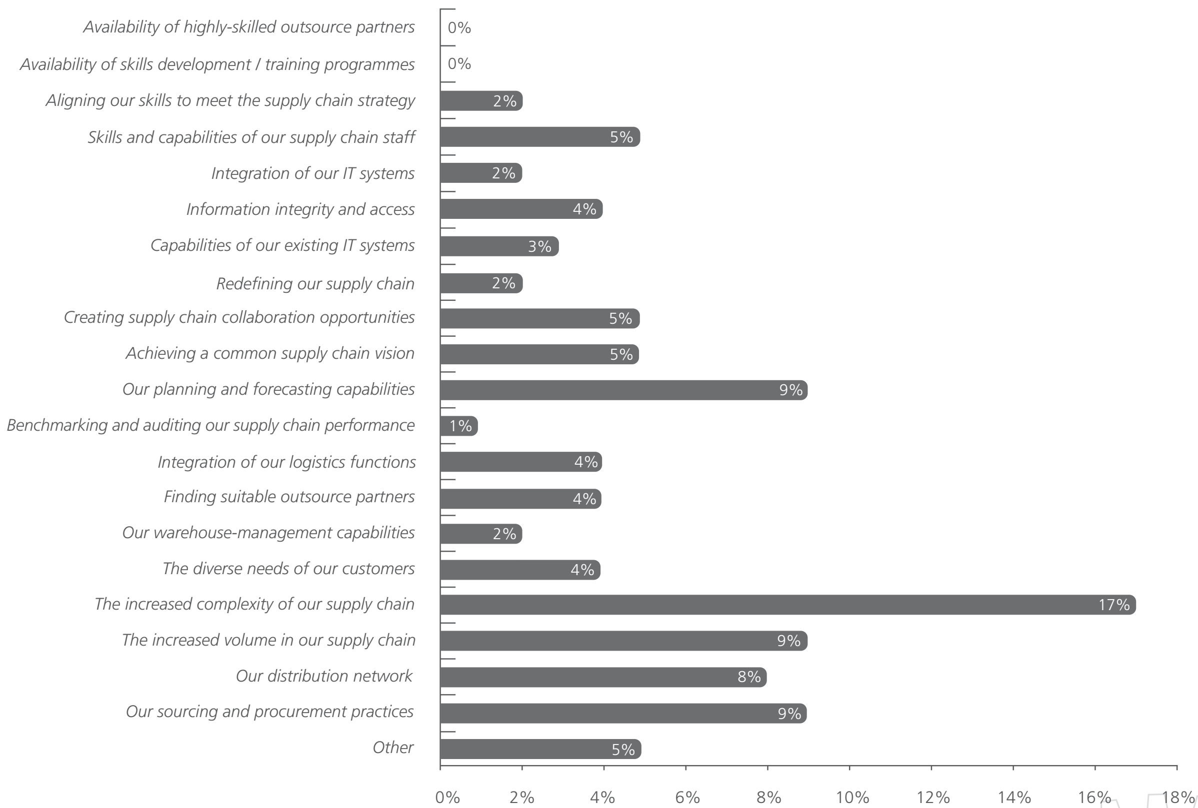
SCLM



In spite of this early mover status, which the CEOs' position also reflects, the Automotive supply chain is under pressure from increases in complexity and volume which characterise the general sample this year.

Figure 16 **Challenges to meeting the supply chain objectives**

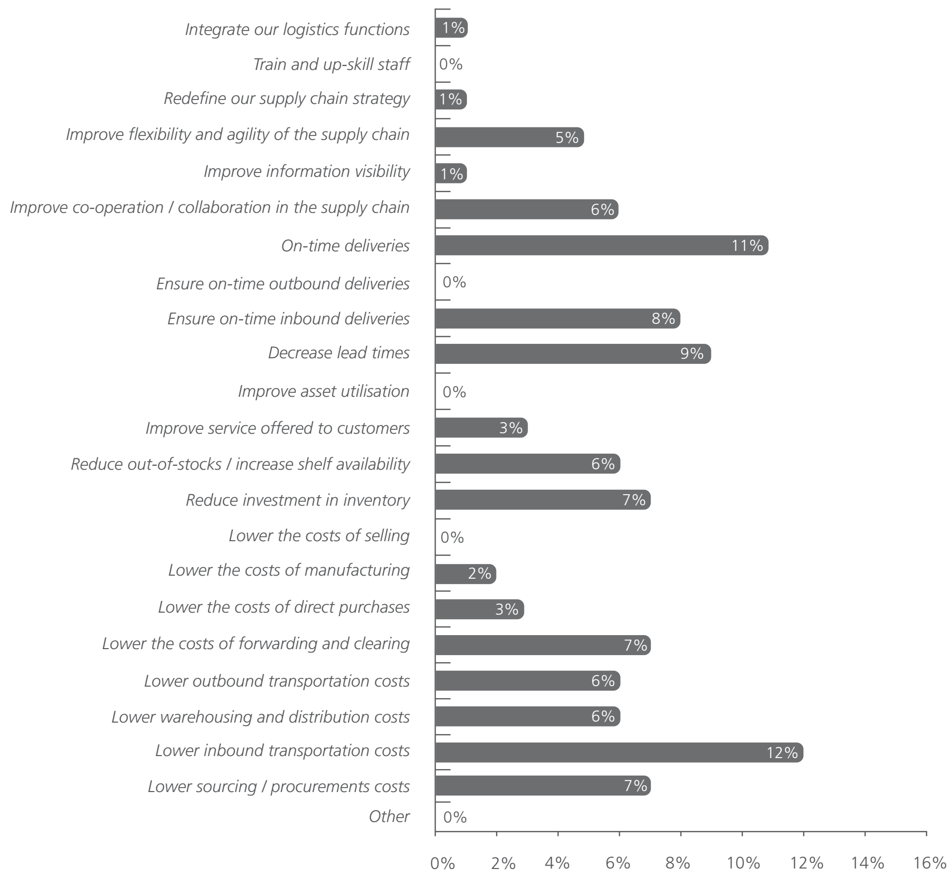
SCLM



The industry's objectives for the forthcoming year reflect, as with the CEO position, a strong focus on cost reduction and service improvement, in particular on lowering inbound costs, and in improving on-time deliveries and decreasing customer lead times. These objectives reflect the competitiveness of the global market, as well as the changes in the nature of demand in the market – there is more diversity and more variability. As a result, as is also reflected in the objectives graph, the industry is looking to making its supply chain ever more flexible and agile.

Figure 17 **Supply chain objectives for the next year**

SCLM



There is, as was evident from the CEOs' view of their involvement in strategy, a commonality of strategic view at the different management levels, at least in terms of the definition of business strategy. A full 89% of SCLMs feel that the business strategy is clearly defined. However, the SCLM group does not agree that there is a strongly positive alignment between the business and supply chain strategies, which, as we saw, was the view of the CEOs. Instead, only 33% of SCLMs believe them to be fully aligned, and 33%, puzzlingly, believe there to be no supply chain strategy!

Figure 18 **Does your company have a clearly defined business strategy that is communicated to the organisation?**

SCLM

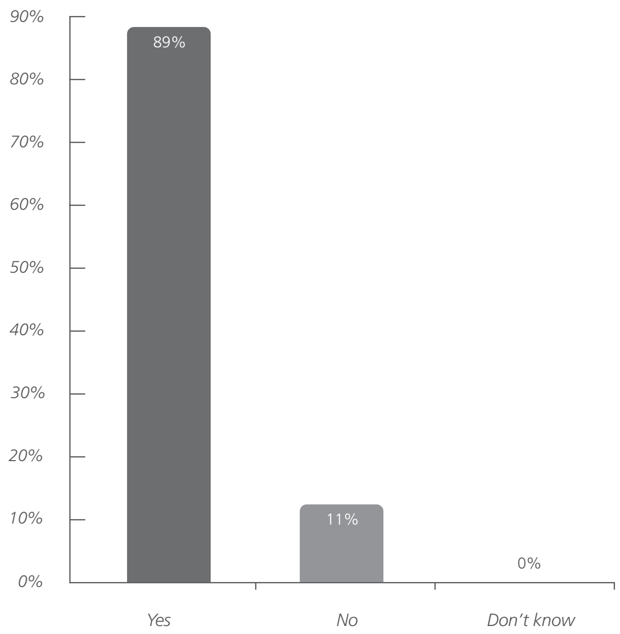
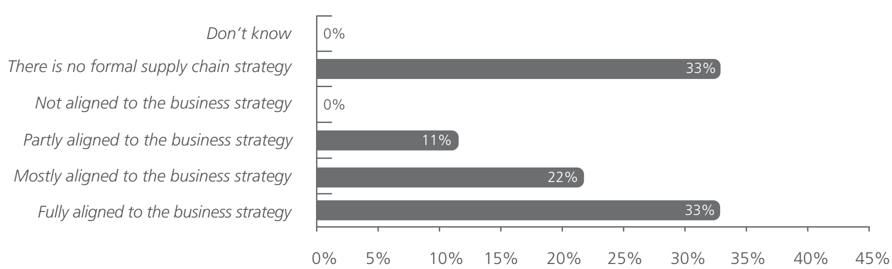


Figure 19 **How aligned is the supply chain strategy to the business strategy?**

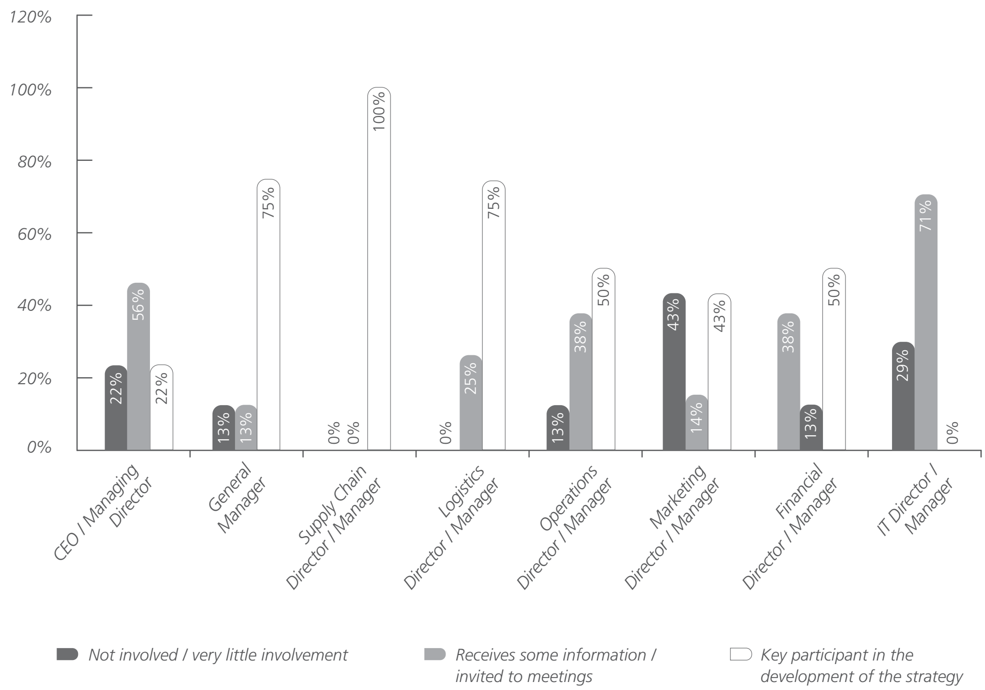
SCLM



The SCLM group does acknowledge that General Managers are key to the development of supply chain strategy, but CEOs will need to take cognisance of this disparity in the executive view if they are to usher in the next wave of supply chain improvement in order to overcome the complexity and volume challenges.

Figure 20 SCLM

How involved are the following executives or managers in developing the supply chain strategy?



The research shows a much higher level of awareness of the importance of working strategically with logistics service providers (LSPs) than was the case in the general sample. But improvement in areas such as planning and forecasting could be better served through even more sharing of information with LSPs, and through better training of their staff.

Figure 21 Do you share detailed demand forecasts with your logistics service provider?

SCLM

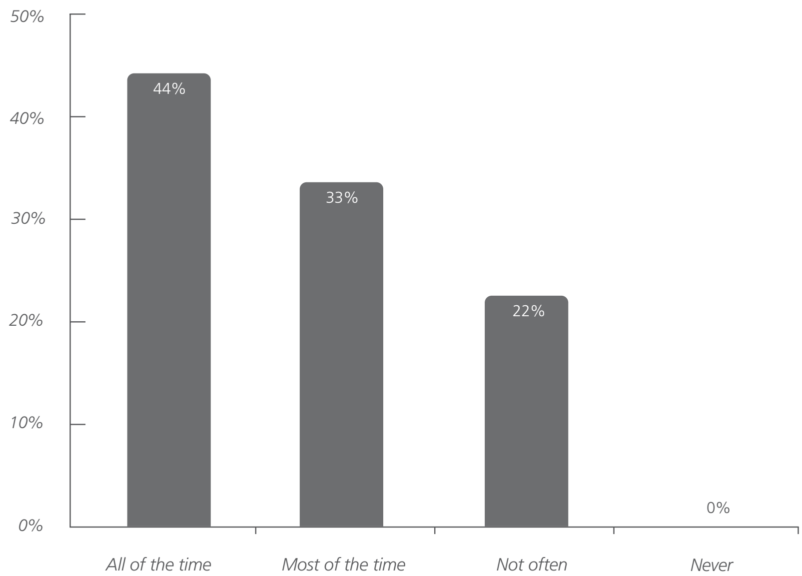


Figure 22 How involved is your logistics service provider in your business's long-term strategic planning?

SCLM

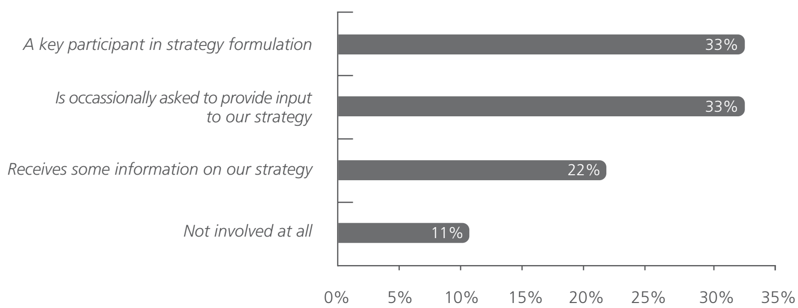
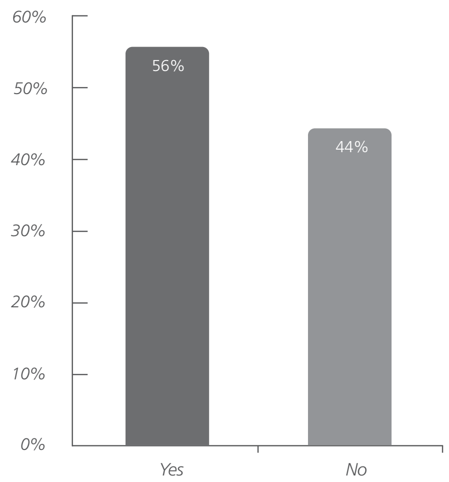


Figure 23 **Do you help train your logistics service provider's staff with specialised knowledge about your business/industry?**

SCLM



In investigating the management of inbound costs, rated as a key objective, it emerges that a more strategic attitude of partnership with suppliers could very well address the problem, especially in the areas of agility and flexibility. A more co-operative relationship in areas like skills training, cost management and process integration could have benefits in improving lead times and on-time deliveries.

Figure 24 **How do you manage your inbound logistics costs?**

SCLM

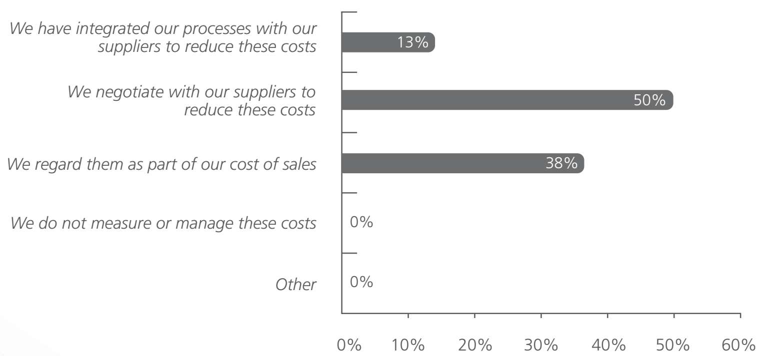


Figure 25 **SCLM**

How do you and your supplier(s) share people/staff skills?

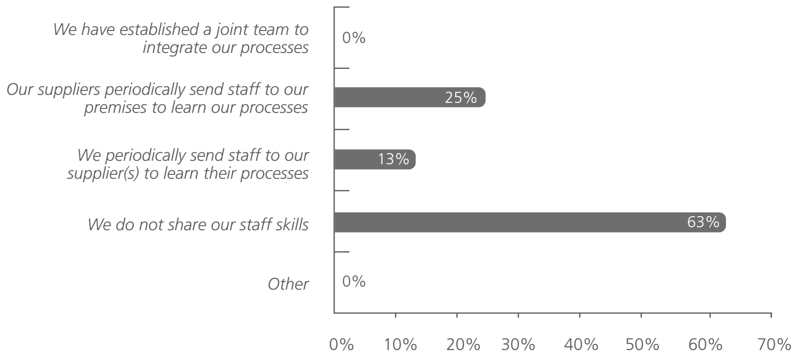
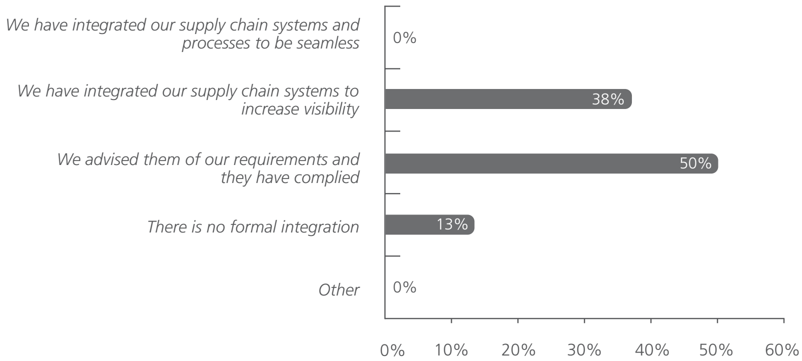


Figure 26 **SCLM**

To what extent have you and your supplier(s) integrated your supply chain processes?



38%

of SCLMs reported that they **still regard inbound logistics costs** as part of their cost of sales

The relationship between SCLMs in the Automotive sector and their customers, on the other hand, is far more collaborative, driven of course by sales needs, with markedly better levels of skills sharing and process integration.

Figure 27 Do your customers share detailed demand forecasts with you?

SCLM

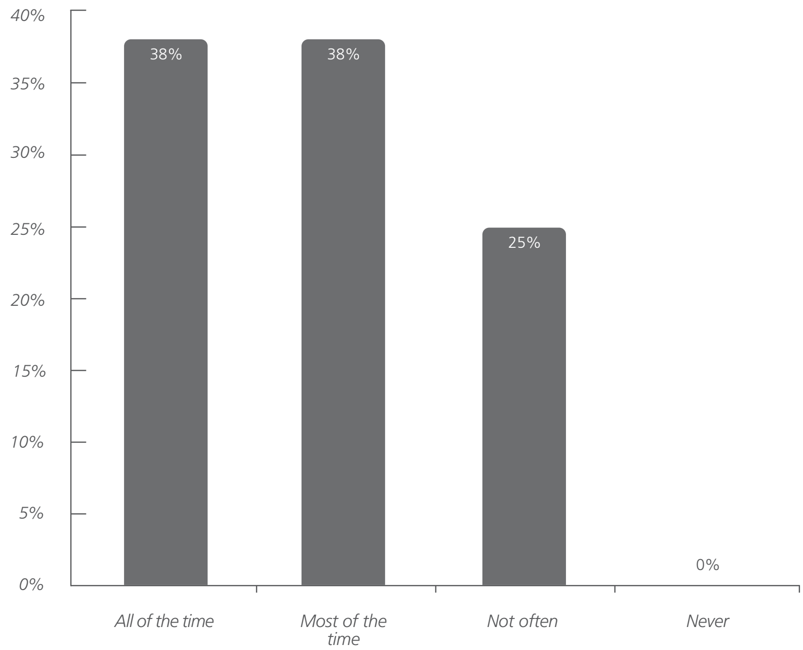


Figure 28 How do you and your customer(s) share people/staff skills?

SCLM

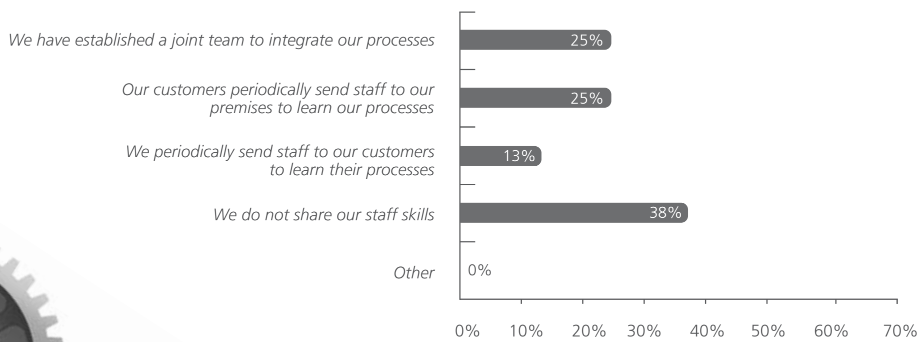
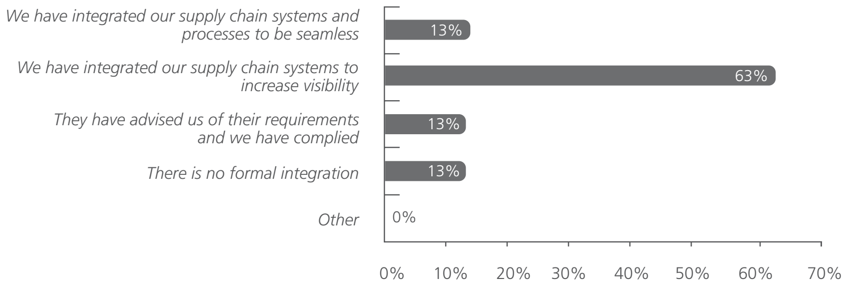


Figure 29 **To what extent have you and your customer(s) integrated your supply chain processes?**

SCLM



Setting Their Own Standards

The pressures on the Automotive industry's supply chain are different in crucial ways from those in other SA industries right now. Sustained local economic growth and demand has served to increase complexity and volume, but the Automotive sector is also very concerned with the global picture – more so than most other industries.

A concern for them will be the difference in viewpoint about their supply chain strategy between the CEO/General Manager group and the SCLM group, since alignment between the two, and between the business and supply chain strategies, is central to the industry's success. The industry is also faced with a delicate balance between servicing customers and dealing with suppliers. This will need to improve if it is to address the burning issues of agility, flexibility and customer diversity which the Automotive supply chain needs to offer in order to provide advantage in a highly-competitive global market.

63%

of SCLMs said that they have integrated their supply chain systems with their customers' to increase visibility

NOTES

NOTES

The 2007 **supply**chain**foresight** study is proudly brought to you by Barloworld Logistics, the initiators of this survey. With the growing presence of South African companies in the global marketplace, information of this nature is critical to strengthen our competitive position as a nation.

Thank you to TerraNova, the CSIR and the various logistics council heads for their support, as well as the many respondents who participated in this survey.

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