

supplychainforesight

2007

FMCG & Retail Report

visibility lower costs forecasting responsiveness agility flexibility
warehousing distribution forwarding & clearing inventory transportation

Sourcing from and selling to international markets represents a complexity challenge for most supply chains and many are struggling to keep up with increased demand and complexity.

Survey conceptualised and initiated by



Barloworld
Logistics

Research Results

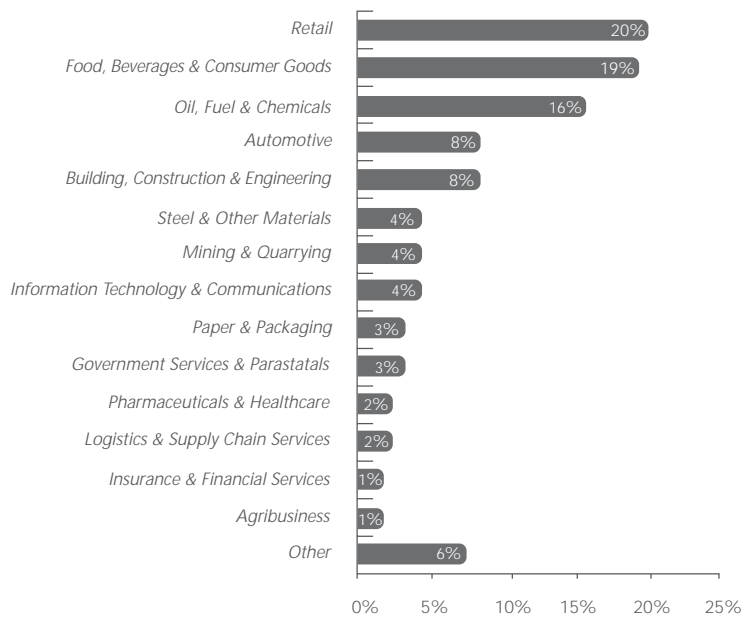
The 2007 **supplychainforesight** survey is a comprehensive, independent study of the issues facing the South African supply chain and logistics market.

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

As with last year's research, we have endeavoured to elicit a comparison between the two parts of the industry, the FMCG sector who supply to retailers, and the retailers themselves, in terms of their views of the industry's objectives and challenges regarding their supply chains, and their own understanding of trends, costs, skills and other issues.

In industry terms, the FMCG and retail sectors, if taken together, are again the biggest participants in this year's research, with a combined total of 39% of the sample. This broke down to 19% from the 'food, beverage and consumer goods' sector, and 20% from the retail sector.

Figure 1 Primary industry in which your company competes?



The significant size of the sectoral participation once again enables us to draw interesting comparisons between the attitudes, objectives and challenges of the supply and demand sides of this market.

The sample group shows an authoritative seniority. In the sample from the retail sector, 73% of respondents come from companies with over R1bn in turnover. CEOs form 10% of the total sample, and supply chain and logistics directors and managers (SCLM) form a further 50%.

The FMCG sector shows a similar profile, with CEO participation at 8% and SCLM even higher at 72%.



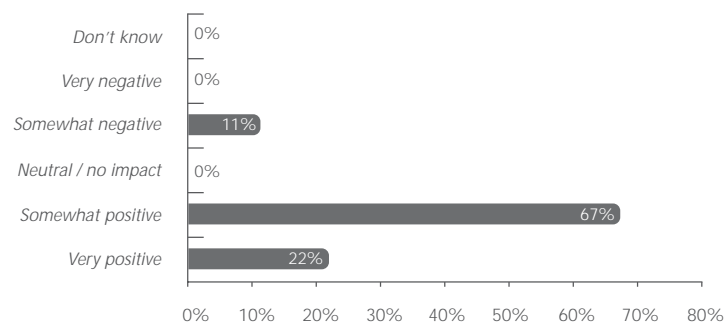
Overall, service and cost issues once more predominate for both supply and demand side respondents, but there has been significant change, from the retail perspective, about how to strategically respond to the continued, and deepening, cost and service pressure.

Globalisation and Industry Leadership

All of the CEO respondents in the retail sample group profess to be affected by globalisation, and fully 89% of them view the impact of globalisation in the next three years as positive. Retail CEOs expect significant competition from the traditionally strong markets of Western Europe and the US, but also the emerging market powerhouses of China and India, just as with the overall sample group.

Figure 2 What impact will globalisation have on your organisation within the next three years?

Retail: CEOs, MDs and GMs



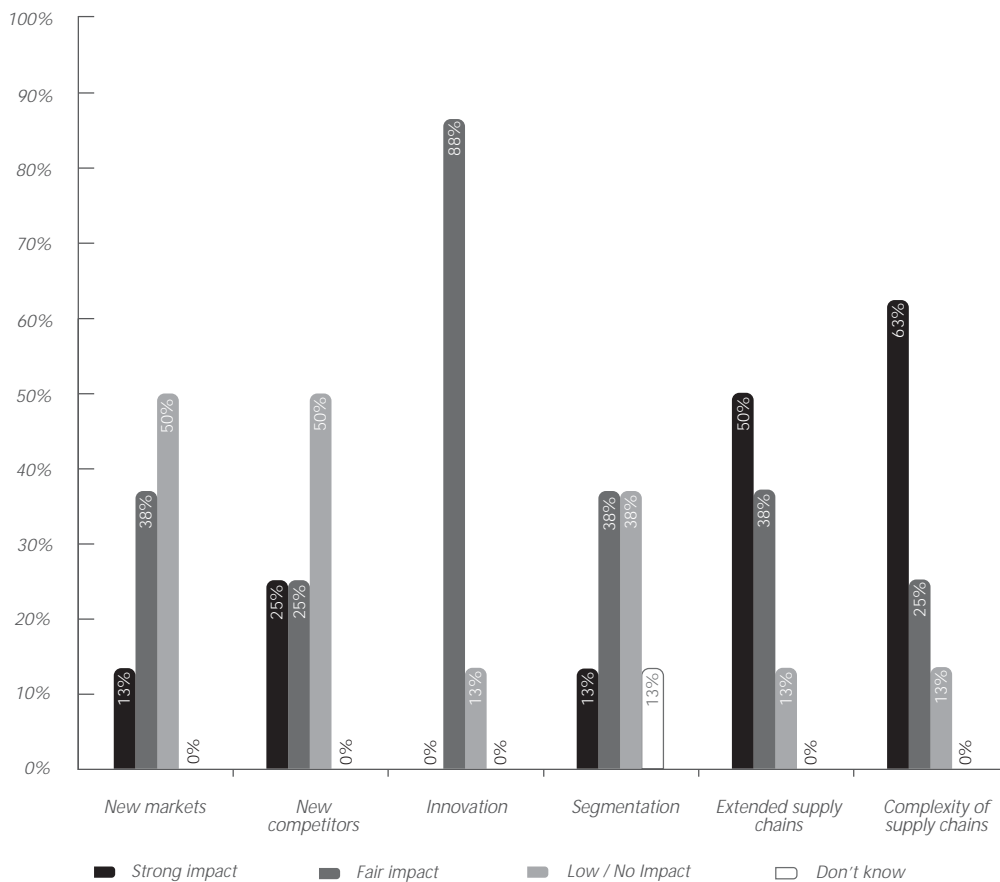
The main areas of the impact of globalisation expected by retail leadership is in the extension and complexity of supply chains which it will bring – a prospect which, as we shall see, is causing a significant strategic shift in the retail mindset.

89%

of CEOs, MDs and GMs in the retail sector see globalisation as having a positive effect on their business

Figure 3 To what extent will globalisation impact your business in terms of:

Retail: CEOs, MDs and GMs



63%

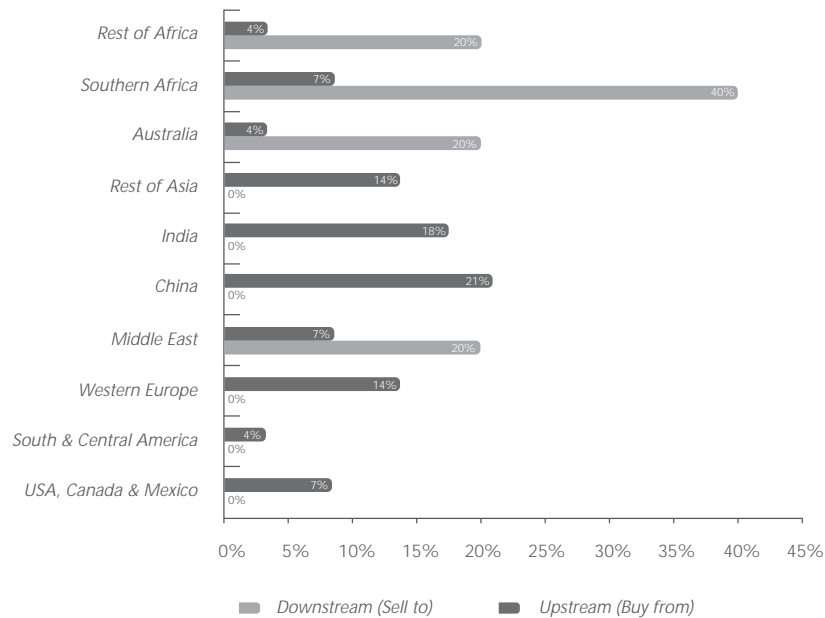
of CEOs, MDs and GMs in the retail sector believe that globalisation will have a strong impact on the complexity of their supply chains



When asked in which regions of the world retail CEOs are doing or are planning to do business, unsurprisingly for the industry a substantial 40% are selling in Southern Africa. Other areas of downstream business are in Australia, the rest of Africa and the Middle East. The retail industry already has a well-established footprint, predominantly in the Southern African region, but these figures show an extending reach into the rest of the world as the industry grows beyond its SA origins, a process which brings with it new challenges to the supply chain.

Figure 4 In which region(s) do you currently or plan to do business?

Retail: CEOs, MDs and GMs



Retail CEOs are being driven to do business globally in order to increase capacity and reduce costs, presumably through the sourcing of cheaper goods. Both these main drivers indicate a healthy and robust industry gearing for further growth. In common with the general picture of the **supplychainforesight** study this year, retail CEOs are planning to form strategic alliances with global partners and are planning mergers or acquisitions globally – signs that the SA industry is venturing further onto the global stage. But for the moment, the dominant global activity for this sector is the sourcing or importing of finished goods.

Figure 5 Which of the following reasons drove / are driving your decision to do business globally?

Retail: CEOs, MDs & GMs

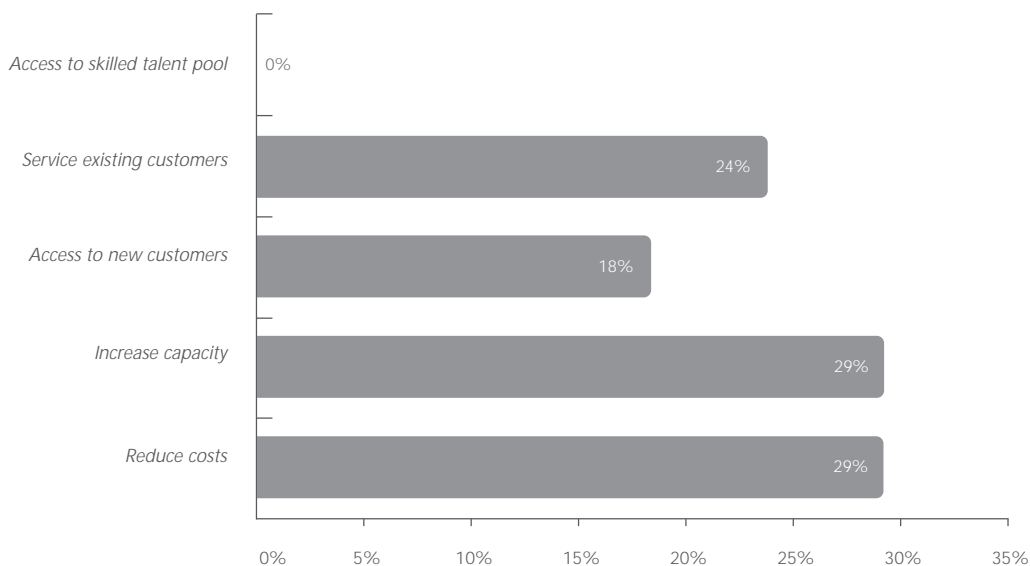
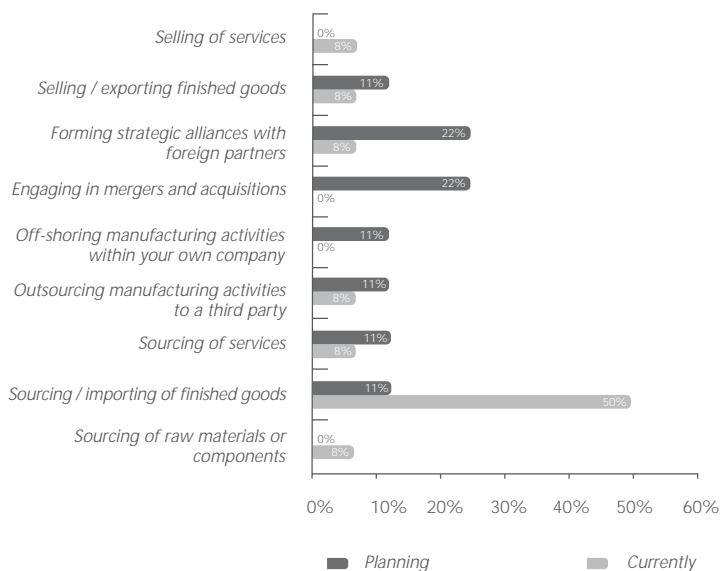


Figure 6 Which of the following actions is your organisation currently and/or planning to take globally within the next three years?

Retail: CEOs, MDs and GMs



The challenges to sourcing and selling globally show both similarities and differences to the general picture. Trade barriers and currency fluctuations are the main challenges to sourcing globally, the former for example probably reflecting the frustration of retailers with the changes in government thinking regarding the protection of the textile and garment fabrication industries. Challenges to selling globally are currency and corruption. Currency fluctuation is in common with the general report, and reflects the difficulty the sector has experienced over the past years with an unstable Rand.

Figure 7 How challenging do you consider the following to be in terms of sourcing globally?

Retail: CEOs, MDs & GMs

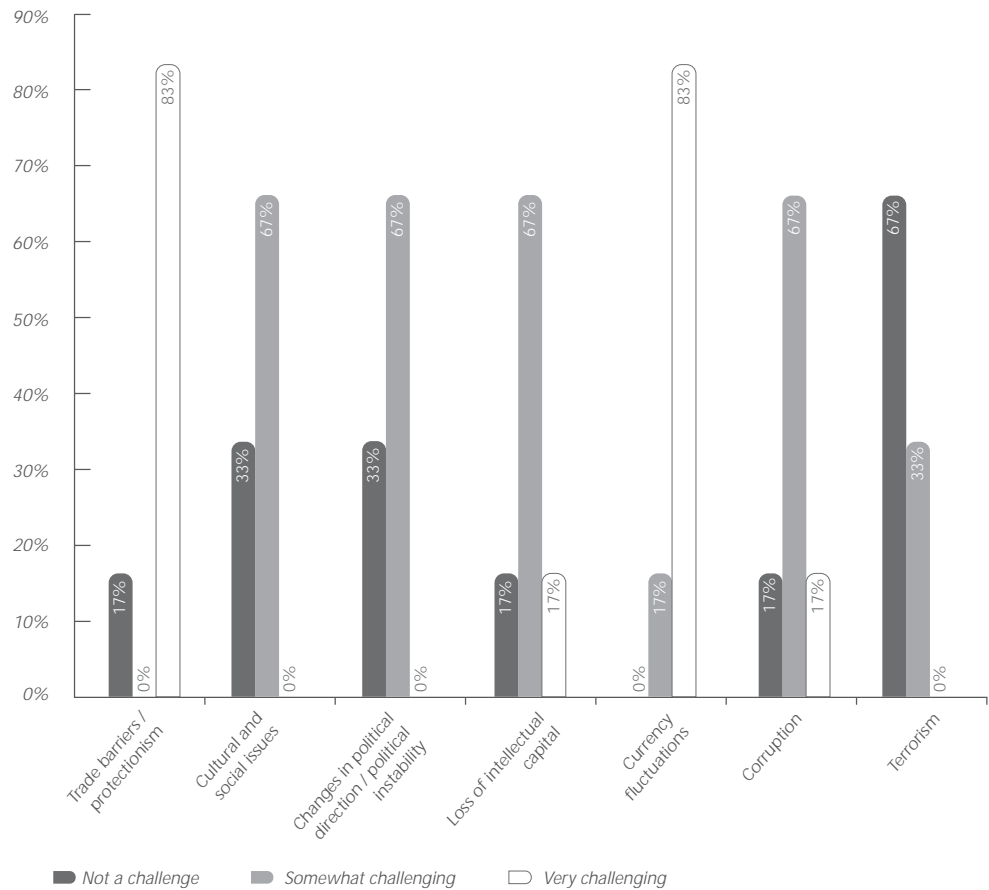
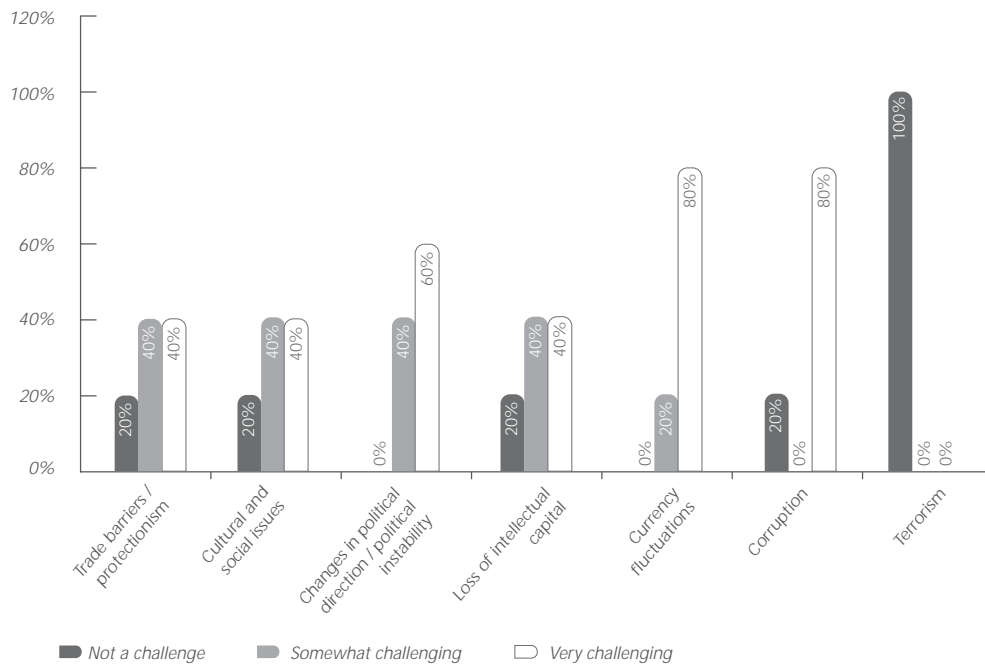


Figure 8 How challenging do you consider the following to be in terms of selling globally?

Retail: CEOs, MDs & GMs



As far as objectives for their supply chains are concerned, retail CEOs are, perhaps surprisingly, very concerned to establish more collaboration with suppliers and customers. This ranked even higher than the usual dominant objective of increased service to customers, which was also behind reducing investment in inventory. The highest rated challenges demonstrate a developing understanding of the business benefits of a more effective supply chain, particularly an understanding that cost and service objectives can be realised through a collaborative supply chain approach with suppliers on board as partners rather than adversaries. The relatively high score for "Redefine our supply chain" would tend to support this view.

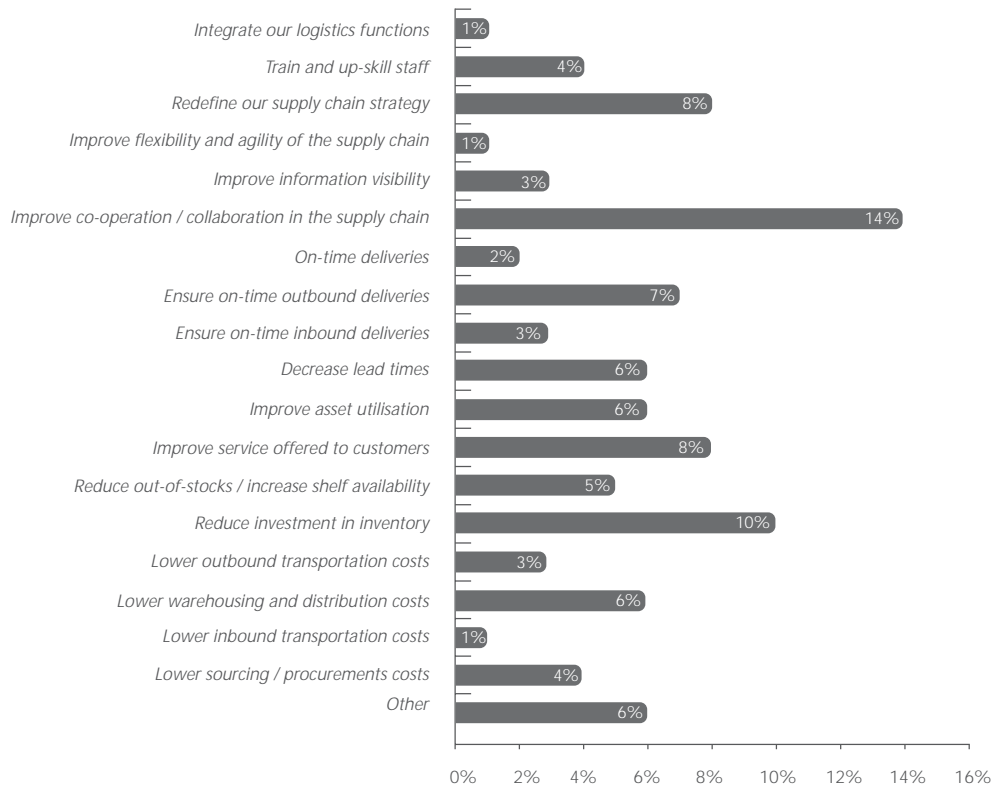
80%

of CEOs, MDs & GMs in the retail sector consider currency fluctuations and corruption as great challenges to selling globally



Figure 9 Supply chain objectives for the next year

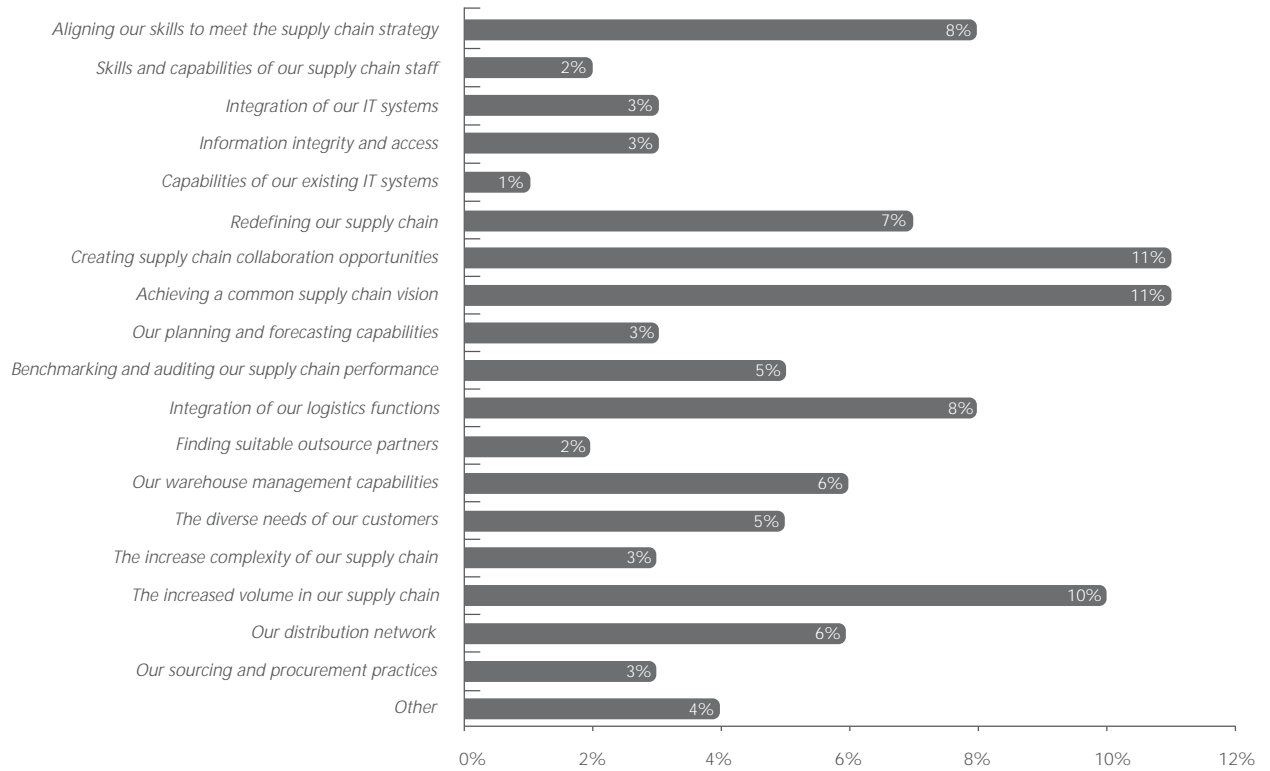
Retail: CEOs, MDs & GMs



The highest rated challenges by CEOs this year were ‘creating supply chain collaboration opportunities’ and ‘achieving a common supply chain vision’, just ahead of ‘increased volume in our supply chain’. As in the overall report this year, SA’s booming economy and growing globalisation is increasing volumes uncomfortably for the retail supply chain, and these chains seem to be creaking under the pressure. But the achievement of a common supply chain vision is a new challenge in the overall context of the research. It indicates the new, more strategically-based thinking of retail CEOs about their supply chain strategy, which as we shall see, has leapt ahead of their FMCG supply side counterparts. Once again, skill levels are seen as a major challenge to the successful achievement of their objectives, indicating that solutions may well be found from consultants and 4PL players.

Figure 10 Challenges to meeting the supply chain objectives

Retail: CEOs, MDs & GMs



11%

of CEOs, MDs and GMs in the retail sector view the creation of supply chain collaboration opportunities as a challenge

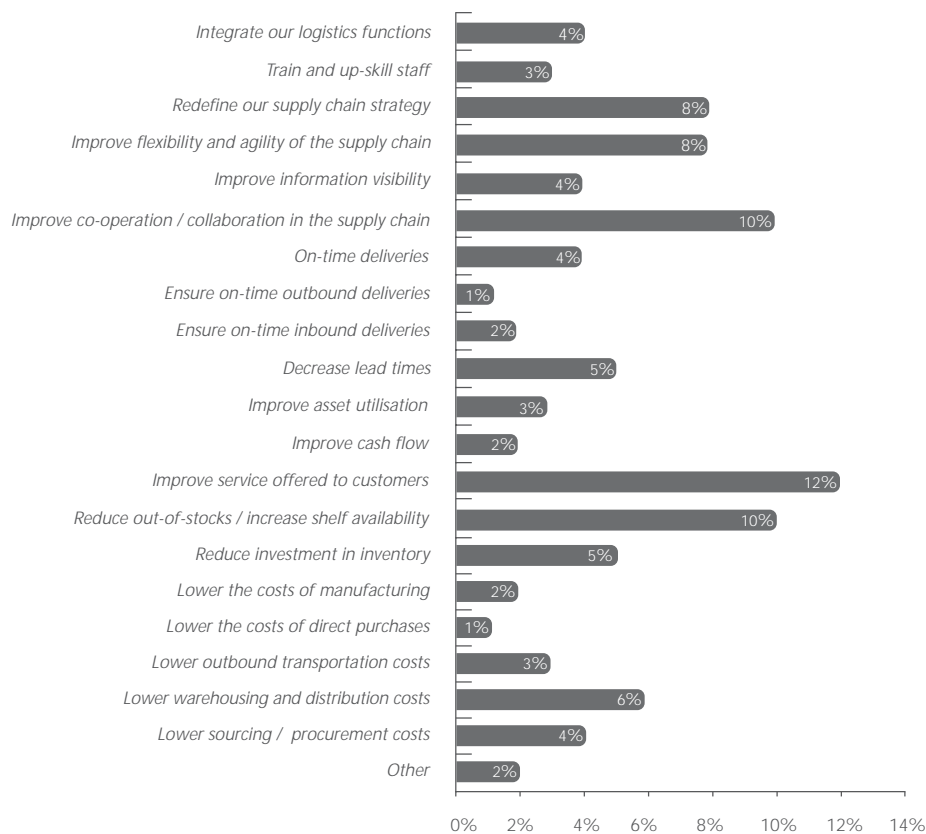


Building FMCG/Retail Relationships?

The overall picture of the Supply Chain and Logistics Managers (SCLM) in the retail and FMCG sectors offers instructive comparisons of their differing positions in the supply chain. The main objectives of the retail group, as with the CEOs responses, relate to service improvements, but the SCLM retail group, as with their CEOs, also demonstrate a strategic awareness in placing collaboration, redefinition of supply chain strategy, and improving flexibility and agility, as major objectives.

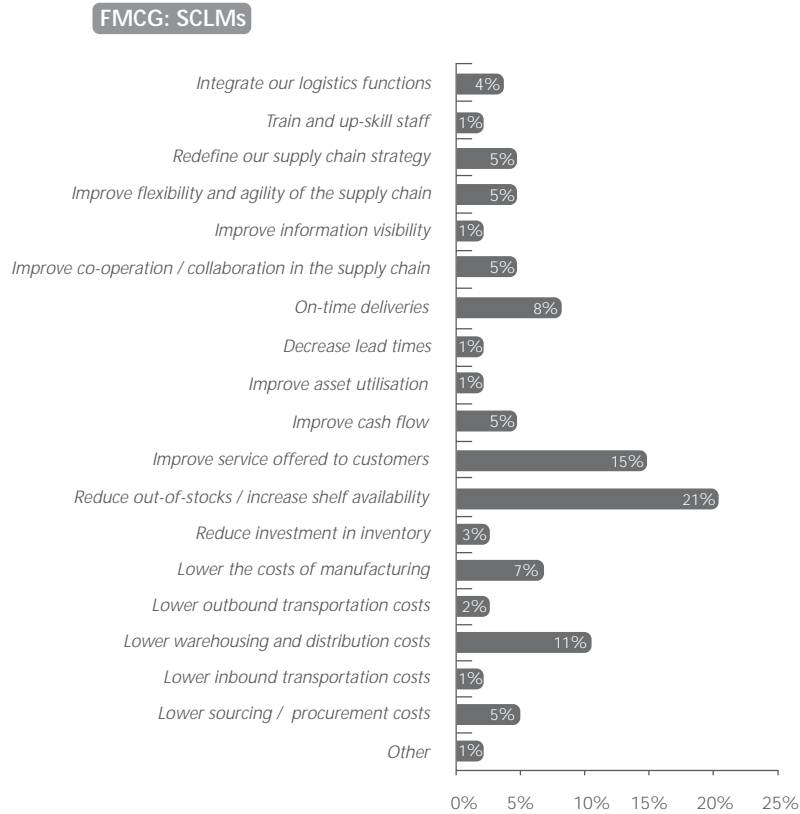
Figure 11 Supply chain objectives for the next year

Retail: SCLMs



The FMCG SCLM group are far more concerned with reducing out of stocks and increasing service levels than their retail customers. This is not surprising given the dominant role that retailers play in this supply chain, and the fact that until this year the predominant method of attempting to drive service levels up by retail was to apply pressure to FMCG suppliers. Clearly the changing attitude of retail leadership is driven by the inability of FMCG to make meaningful improvements without the active collaboration of the retail sector, and the willingness to reform and redefine their supply chains which is now evident. This emerging attitude should provide FMCG companies with a new opportunity to deal with long outstanding issues and inefficiencies.

Figure 12 Supply chain objectives for the next year



The differences between the retail and FMCG SCLM objectives indicate clearly that the FMCG group are responding to immediate service and delivery pressures, while the retailers are looking to strategy to improve supply chain performance and meet the challenges of increased volumes and complexity. Importantly, as we have mentioned, the fact that the sector with the power to redefine supply chain relationships is retail should give the whole supply chain hope that real improvements should be just around the corner. Where previously the dominant quality of the buyer/salesman relationship was adversarial, collaboration, redefinition and reform of the supply chain are now definitely on the agenda - although this collaborative effort is unlikely to diminish a good healthy debate on the pricing variable!

The main challenges for both groups corroborate the view that there is a relationship shift initiated by the retail group. The retail challenges for SCLMs focus strongly on the perennial planning and forecasting capability, but the top challenge, rated at 13%, to realising the objectives of service improvement and collaboration is that of achieving a common supply chain vision – a factor that is not nearly as strongly indicated in the overall report, where it rates for only 7% of respondents.

While the common vision desired by the retail grouping is shared to some extent by both the supply and demand side of the FMCG/retail supply chain, other challenges for the FMCG group reflect a much more tactical viewpoint. By far their greatest challenge is their planning and forecasting capability, followed by skills, and the



increasing volumes and complexity of their supply chains. These indicate that the suppliers are struggling with the volume and complexity challenge brought by globalisation and the increases in demand from buoyant local markets in particular.

Figure 13 Challenges to meeting the supply chain objectives

Retail: SCLMs

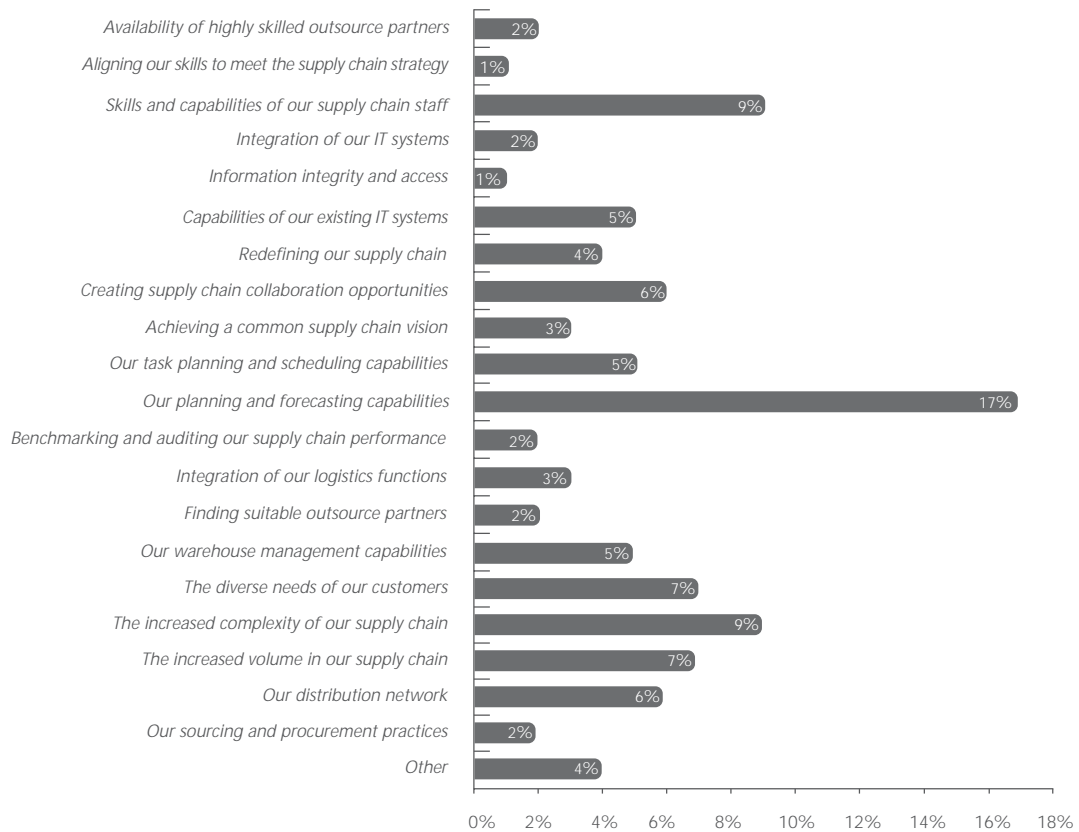


21%

of supply chain and logistics directors in the FMCG sector rate 'reduce out-of-stocks' as a prime objective

Figure 14 Challenges to meeting the supply chain objectives

FMCG: SCLMs



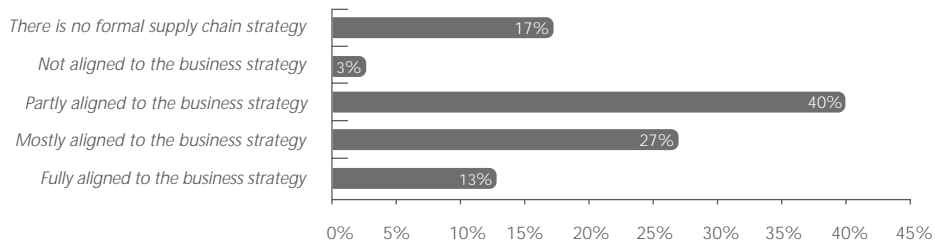
These differences demonstrate that suppliers are not taking the strategic route to overcoming the demand and complexity issues evidenced by the shift in retail thinking. Instead, they seem more focused on tactical and delivery issues. They seem not to be reacting to the changes in attitude of the retail group. It's almost as if the change in retail's approach from a tactical, master/servant approach to FMCG suppliers, to a collaborative and more strategically-based approach has not yet been communicated to their supply chain "partners".

The difference in the view of strategy taken by both groups is further evidenced by the response to the question about strategic alignment. For the retail group, fully 60% of the sample believe the supply chain strategy to be only partly aligned or worse to the business strategy.



Figure 15 How aligned is the supply chain strategy to the business strategy?

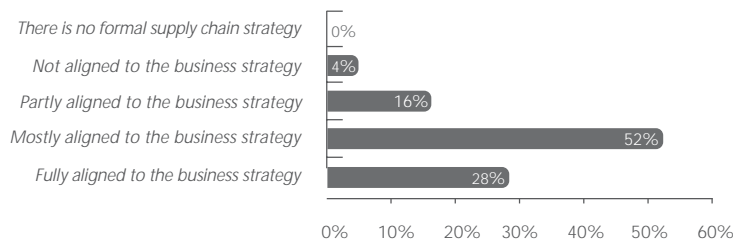
Retail: SCLMs



On the other hand, 80% of the FMCG group profess their supply chain strategy to be fully or mostly aligned to the business strategy, but this alignment is almost certainly to yesterday's reality of little or no willingness from the retail sector to collaborate around supply chain reform.

Figure 16 How aligned is the supply chain strategy to the business strategy?

FMCG: SCLMs



In summary, from the retail sample's point of view this result indicates a realisation that the supply chain strategy needs to change, but is not yet aligned to the business strategy - as indicated by their objectives and challenges. For the FMCG sample, the notion that their strategies are aligned is a reflection of their fulfilment of a previous strategic approach – focused on service levels and fulfilment of retailers' inventory requirements. This type of relationship seems to be about to change, a change occasioned by a different retail strategy, and enabled by the retail sector's level of power in the supply chain.

Driven by the need to change and align the supply chain strategy to new market demands, there is also a much greater involvement by CEOs and senior managers in the supply chain strategy than we have seen previously. The complexity, and volume issues take a new twist when the SCLM group is asked the questions about their organisation's expectations regarding global sourcing and selling globally.

Figure 17 Do you believe that your supply chain strategy sufficiently addresses the option of sourcing goods or services globally?

Retail: SCLMs

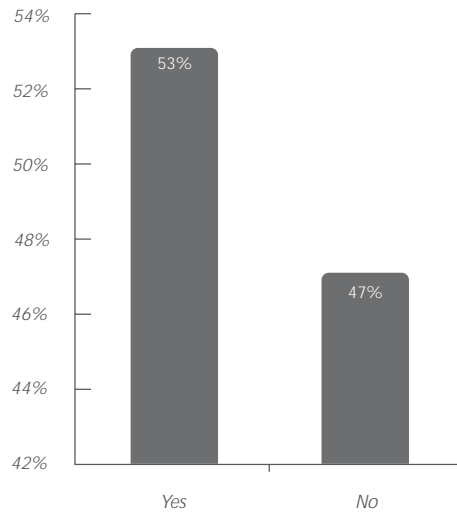


Figure 18 Do you believe that your supply chain strategy sufficiently addresses the option of sourcing goods or services globally?

FMCG: SCLMs

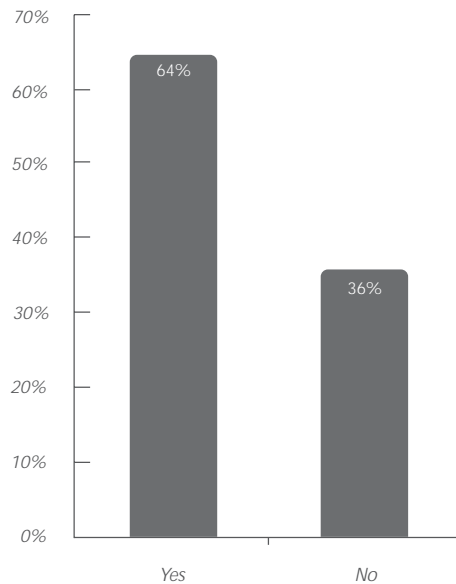
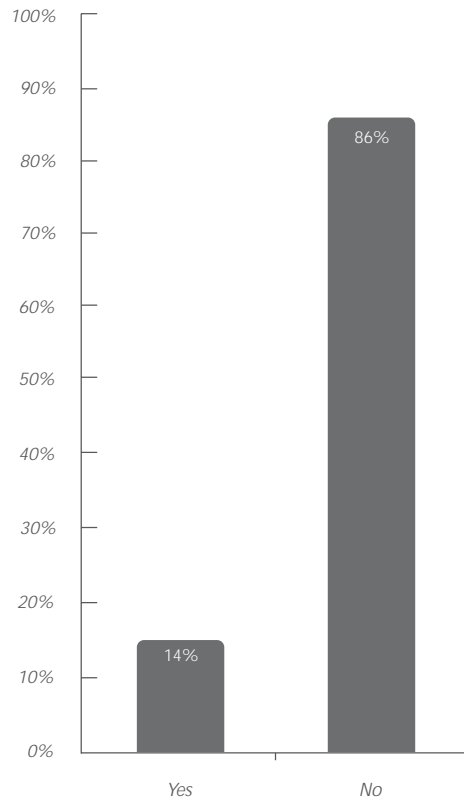


Figure 19 Do you believe that your supply chain sufficiently addresses the option of selling your goods or services globally?

Retail: SCLMs

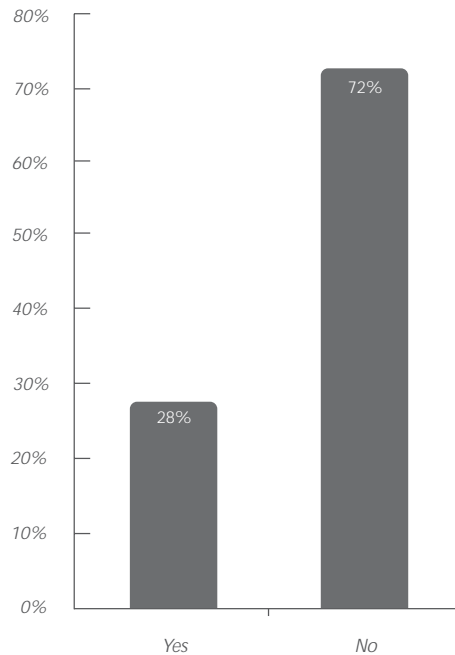


86%

of retail supply chain and logistics directors believe that their supply chain is inadequate for selling globally

Figure 20 Do you believe that your supply chain sufficiently addresses the option of selling your goods or services globally?

FMCG: SCLMs



Both groups feel they are not exploiting quickly enough the sales opportunities globalisation is throwing up in particular. The impetus for this, as was evident from the retail CEOs responses, is to acquire new customers, but also to compete in new global markets through collaborative alliances with other global retail partners.

As with the general sample group this year, there is an increase in the use of supply chain consultants in the retail industry in particular, where 16% of respondents make use of consultants. This is consistent with the wish to redefine supply chain strategy under the pressures of globalisation, complexity and increased demand. The figure falls to 9% for the FMCG group, again consistent with their focus on servicing retail customers from a functional perspective.

When asked about the sharing of demand forecasts with their logistics service providers, 64% of the retail group profess to do so most or all of the time, versus 56% of the FMCG group. The marginally greater estimate of 'sharing' for the retail group may reflect the fact that orders given to the FMCG group could be seen as demand forecasts, given that the levels of real collaboration are seen as a challenge consistently.

The logistics service providers are also not seen by either group as strategically important, with only 16% of FMCG and 11% of retail respondents seeing them as key participants to strategy formulation. The realities of collaboration, and how far the industry has to go if it is to be realised as a strategic objective, are revealed in the responses of both groups to the question 'do you share demand forecasts with your suppliers' to the retail group, and 'does your customer share demand forecasts with you' to the FMCG group.



Figure 21 Do you share detailed demand forecasts with your supplier(s)?

Retail: SCLMs

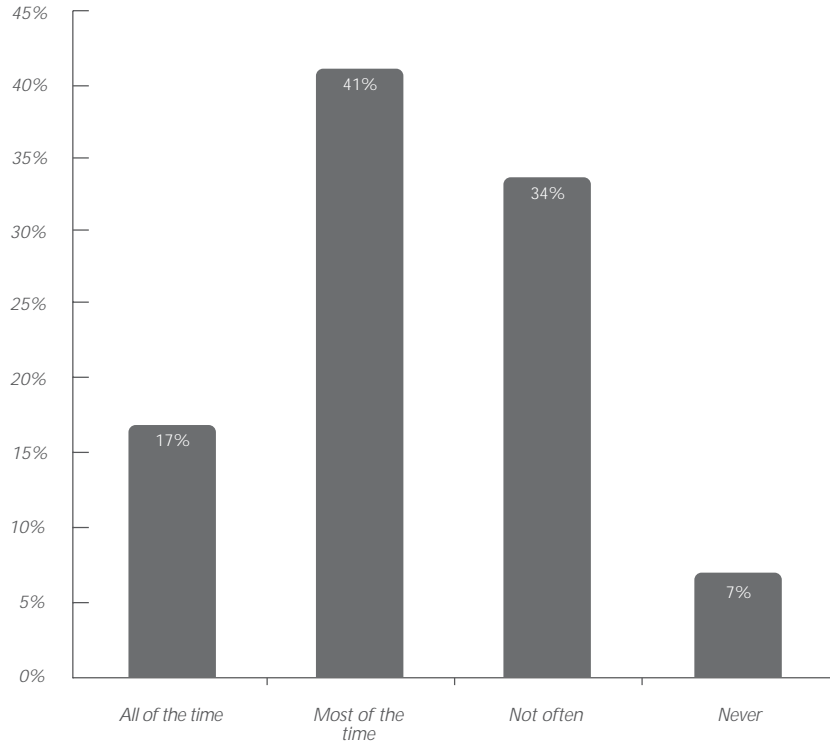
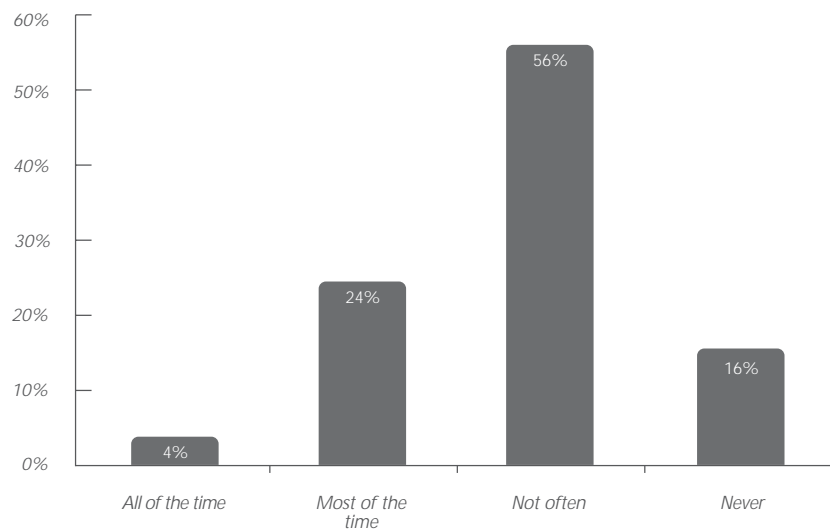


Figure 22 Do your customers share detailed demand forecasts with you?

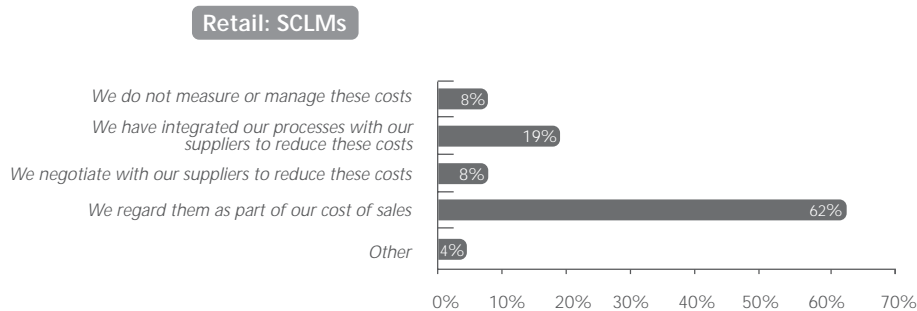
FMCG: SCLMs



For the retailers 58% believe they share forecasts often or always with FMCG suppliers. Only 28% of suppliers believe the same. If, as already suggested, orders to suppliers could be considered to be demand forecasts by the retail group, this could explain this crucial disparity. But the FMCG supplier group is aware that these don't constitute detailed forecasts, and thus continue to place planning and forecasting on top of their strategic challenges. Generally, of course, this indicates a lack of proper and effective collaboration, and is resulting in higher out of stocks and lower availability, and thus higher costs, than should be the case.

A question regarding the inbound costs of the retail supply chain further corroborates the gulf that exists between perception and reality regarding collaboration. Fully 70% of the retail group regard inbound supply chain costs as part of the cost of sales (with 8% of this number, amazingly, not measuring these costs at all), 29% of the FMCG supplier group, on the other hand, think this is so. Another 25% of the supplier group 'don't know' how their retail customers consider their outbound (ie, the customer's inbound) logistics costs. Hence, costs are not being measured and managed in any collaborative way, indicating the distance the industry has to travel to enable real collaboration. Only with collaborative, flexible and agile enough supply chains can the industry meet the twin challenges of increased volumes and globalisation.

Figure 23 How do you manage your inbound logistics costs?



62%

of retail supply chain and logistics directors regard inbound logistics costs as part of their cost of sales



Feeding the Beast at Home and Abroad

The pressures on the FMCG/retail supply chain are much the same as in other industries in SA right now. Sustained local economic growth and demand has placed pressure on infrastructures, business processes and supply chain strategy, particularly when coupled with a paucity of high-level supply chain skills. The industry is poised for a further period of exceptional growth after a long period of prosperity and profits, and will seek to do this partly through global expansion, and also by embarking more steadily on the route to effective global sourcing. The retail industry in particular, it seems, is now realising that the venture into the wider world and meeting increased demands at home depends on a new, collaborative supply chain strategy which involves their key suppliers on the FMCG side. The fact that the power in the buyer/supplier relationship has traditionally sat with the retailers makes it possible that this vision of reform will shortly become a reality.

The retail industry is realising that a collaborative supply chain strategy with key suppliers is vital to meeting the challenges of increased demand and globalisation

NOTES



The 2007 **supplychainforesight** 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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The logo consists of a stylized globe with several dots and lines representing orbits or data points, positioned above the company name.