



Many of our supply chains are not efficient or effective enough to compete in a global market. Increasingly, this will present a threat even on our home turf.

There is a way forward but it needs urgent action.

Survey conceptualised and initiated by:



Barloworld
Logistics

Research Results

The 2006 **supplychainforesight** survey is a comprehensive, independent study of the issues facing the South African supply chain and logistics market.

The **supplychainforesight** report, now in its third year, has become a well-established and authoritative source of strategic information about South Africa's supply chains. This year sees the in-depth analysis for which the research has become well-known take a new tack. While the 2005 report has been acknowledged by analysts in different industries as presenting an insightful strategic view of South Africa's supply chains, this year we invited their input in order to improve the quality of our investigation. Last year's findings were disseminated to major executives in most key industries through the media and a series of live presentations. The issues raised by the research found their way into government policy documents and into the major infrastructural study of logistics in SA conducted by the CSIR. It is no surprise therefore that the 2006 study shows a marked increase in support and participation from senior executives in SA industry. We hope that this virtuous circle of collaboration will again lead to widespread participation and feedback in 2007.

In comparison to last year's major findings, we were again able to refine the terms of the investigation to elicit attitudes and thinking about business issues in specific industries in which the supply chain plays a crucial role to the continued success – or failure – of the business.

In general, the 2005 findings reflected a strategic commitment to collaboration with suppliers and customers as the major objective. There seemed to be awareness that a continued focus on silo-based improvement and functional efficiency had to be driven by a strategic view of the improved holistic effectiveness of the supply chain – that is, how different functions impact on each other and how they can be optimised in relation to each other. We remarked that such an apparent shift in thinking towards the strategic collaborative view indicated a progressive turn.

Last year's other major business objective, the study found, was the intention to align supply chain strategy and operations. Combined with the intention to collaborate, this seemed to us to indicate a further shift in thinking towards the new global imperative for supply chains to look outward: to perceive the chain as a network of linked businesses to some extent dependent on each other's effectiveness and efficiency. We commented on the move outward as a step on from the integration of one or more internal supply chain functions which for a long time had been the limit of the ambitions of supply chain reform for many organisations.

The ink was hardly dry on last year's report when we began to wonder: how well will South African businesses cope with the avowed challenges of collaboration and integration? Will they begin to fundamentally reform their supply chains? Could the skills shortage be the inhibitor or will management revert to a perceived low-risk "treat the symptoms" approach?

The 2005 findings reflected a strategic commitment to collaboration with suppliers and customers, as well as the intention to align supply chain strategy with operation ←



What enables this potential movement from supply chains that are largely non-integrated and non-collaborative is of course the global information revolution, and the shift from an economy with a primary industrial basis to one focused on services and solutions as primary differentiators. The provision of such solutions and services presupposes not only knowledge of the global markets within which companies now compete, but knowledge of how to use supply chains for competitive advantage by finding a service or cost differentiator. In last year's **supplychainforesight** report, we referred to a new global challenge for South Africa business, and it is quite simply this: it is no longer possible to think about your business, if it is of a certain size and wishes to grow further, as being confined to South Africa.

The new conditions of global trade demonstrate that flexibility, agility and responsiveness in the supply chain – the ability to use supply chain principles to respond to rapidly changing customer needs in a volatile global business environment – are vital tools in the ongoing search for lower costs and better customer service levels, and beyond these to the search for increased market share and margins. With examples such as the Indian software industry and the opening to Western markets of low-cost centres of production in China demonstrate is that a business in a labour-intensive, primary industry with an expensive and largely inflexible chain is becoming difficult to justify and sustain. Once again, what is clear is that we live in a global economy driven by information capital. It is one where supply chains increasingly compete against each other, rather than the traditional view of companies in the same industry, or even national economies, competing.

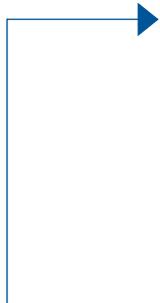
How to Read the Report

The format of this year's report follows that of last year's, but shows a few refinements. The 2006 report again commences with a section of overall key learnings and analysis drawn from the general data, including graphs for reference where appropriate.

In a slight departure from last year, the remainder of the report then consists of aggregated data and analysis for each section of the questionnaire, which is divided into four sections:

- the respondent profile
- supply chain strategy
- supply chain costs
- supply chain performance and benchmarking

In addition, this year's report contains specific analyses across many of South Africa's key industries, thus providing further benchmarks for both industries and individual companies. These will be made available in full to the industries concerned in customised presentations, and are referred to in this general report where appropriate.



The new conditions of global trade demonstrate that flexibility, agility and responsiveness in the supply chain are vital tools for lower costs and better customer service levels.

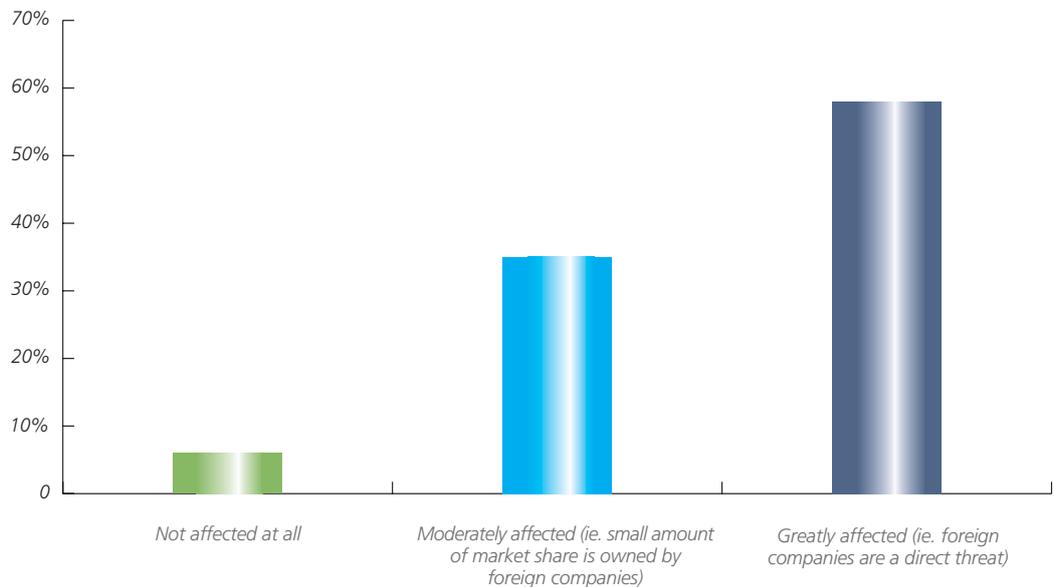
KEY LEARNINGS

This section of the report identifies several key learning areas drawn from the general body of data, and contextualises these in the light of current global supply chain thinking. In each learning area we have again aggregated and interpreted one or more of the data findings, in a way that is intended to provoke discussion and debate.

1. The Challenge of Globalisation

The overwhelming majority – over 90% – of respondents to this year's study claim to be affected by globalisation. As we have mentioned, the major challenge that globalisation brings is to expand the pool of possible competition, who can produce goods and services and satisfy volatile demand patterns, cheaper or faster than companies in South Africa can.

Figure 1. To what extent is your company / operation in South Africa affected by globalisation?



We have tracked in previous **supplychainforesight** studies that there is a struggle in the local market to align business objectives with supply chain strategy. While a focus on customer service and collaboration remain high on the strategic agenda this year, there remains evidence that methodologies are silo based. Also still present is the challenge of dealing with the perceived high cost and relative inefficiency of individual supply chain functions. It would seem that previous investment in individual functions has failed to bear fruit holistically. In 2005's study, we found that, while savings were being achieved through the optimisation of individual functions, the overall costs of the supply chain were on the increase. We attributed this cost increase to the failure to integrate functions with each other, or to effect real collaboration. As we have suggested previously, only when cost reduction in individual functions is put into a holistic – and now global – context, can it be effective in reducing the overall supply cost while increasing service levels on a sustainable basis.

The globalisation of supply chains has raised the stakes for companies wishing to remain competitive and on a growth path. The maturation and availability

of information technology means that customers and end consumers can now source both raw materials and finished goods and services from a much wider pool, a global one.

This leads to a shortening of product life cycles as many goods have developed life-cycles more akin to fashion items – witness the cycle for new models of automobiles, or cell phones. The greater degree of choice this presents for customers and consumers also means a greater degree of product parity and competition as companies fight for competitive advantage in a very customer-centric, demand-driven market. Businesses now need to refocus their strategy on higher service levels, and more flexibility and responsiveness in satisfying rapidly changing customer demand, at lower cost. It is here that new, integrated and collaborative approaches to global supply chain management can present a vital competitive edge.

The increasing focus on global logistics can realise lower-cost production and better service levels, and those companies who are early adopters of the opportunities globalisation presents will seize competitive advantage in their markets.

Many opportunities exist in global supply chains to create value beyond simply lowering a company's rate per kilometre or improving distribution efficiency.

Effective global supply chain networks have the potential to:

- create increased revenues through improved customer service
- provide the ability to expand into new markets
- utilise capital more efficiently through reduced inventory and facilities investment – for example, through the concept of the virtual warehouse or facilities and inventory pooling in similar industries
- minimise taxes and other levies through a well-planned global manufacturing and distribution strategy

One of the issues facing supply chain effectiveness in the context of a more fluid and fragmented global economy is that products will no longer be produced and consumed within the same geographical area. The supply chain focus thus extends outwards from the company, to the industry, to the country, and then to the globe. In product assembly, more often than not the different parts of a product will come from different parts of the world to a central point for assembly or sub-assembly. In some industries, indeed, we are seeing an increased concentration of production facilities, supply chain and logistics infrastructure in areas of low-cost production. The sugar industry is a good example of this, where low-cost areas of production in Africa and elsewhere find additional cost benefits by integrating in-field logistics operations with specialised transportation and by collaborating with the sugar mills to which they deliver.

Naturally, this creates more complex supply chains, involving more suppliers and customers. These in turn change the requirements of a co-ordinating, network-wide supply chain management process. Since it is information systems which enable such a dispersed supply chain network to operate efficiently, it is critical that the information management systems employed in the supply chain are effective.

Globalisation also brings foreign competition into markets that traditionally were local. Local companies are therefore forced to respond by improving their manufacturing practices and supply chain management, or face closure. Again, it's important that such efforts don't only focus on individual supply chain functions, but on developing increased supply chain agility, flexibility and

Internationally, companies have dealt with the challenges of globalisation by adopting a globalised perspective of their supply chain and partnering with supply chain specialists to acquire high-level skills.

responsiveness in meeting the globalisation challenge. This is something, we would contend, that South Africa industry has traditionally been slow to respond to. Our markets have developed historically in a way that is not conducive to supply chain competitiveness and flexibility on the global stage. Our major financial and manufacturing centre, Johannesburg, is completely landlocked and hundreds of kilometres from the nearest port. While South Africa is seen as a gateway to Africa, our rail and port infrastructures are not developed enough to take advantage of the export and other manufacturing and distribution opportunities which an effective supply chain would bring. The knock-on effects are higher costs for individual supply chain functions such as warehousing and transport, and, critically, longer lead times.

In South Africa, as this year's findings show, the benefits of globalisation drive senior management's strategic agendas, but are hampered by three factors:

- the challenge of aligning supply chain strategies involving collaboration and integration with business objectives such as cost reduction and service level improvement
- the shortage of high level skills to re-engineer supply chains from a silo-based efficiency approach to a collaborative, integrated and responsive effectiveness approach
- the lack of local benchmarking in key areas of the supply chain

Anecdotal and research evidence suggests that overseas companies have also struggled with the same issues, and have dealt with the challenges by:

- partnering with supply chain specialists to acquire high-level skills
- taking a globalised perspective on their supply chain operations
- adopting best practices and benchmarking
- undertaking continuous improvement

As with many other strategic innovations and optimisations that are undertaken as a crucial means of making the entire business more agile, flexible and responsive to customer needs, it is crucial that the CEO and the senior executive team take the lead. In supply chain strategy this is even more important when optimising the global supply chain, since it involves issues beyond functional supply chain operations such as tax, human resources, legal, financial and marketing departments across multiple countries. The majority of companies which successfully optimise their supply chain networks holistically have one senior executive in charge of the overall supply chain, reporting directly to the CEO.

2. Efficiency versus Effectiveness - Again

This year's respondents very clearly state their objectives to increase service levels and improve collaboration and co-operation in the supply chain. The major challenges remain, as with last year, the ability to plan and forecast demand more effectively, and the creation of collaboration opportunities. The skills factor also remains a challenge.

Figure 2. What are the top 3 objectives for your supply chain over the next 12 months?

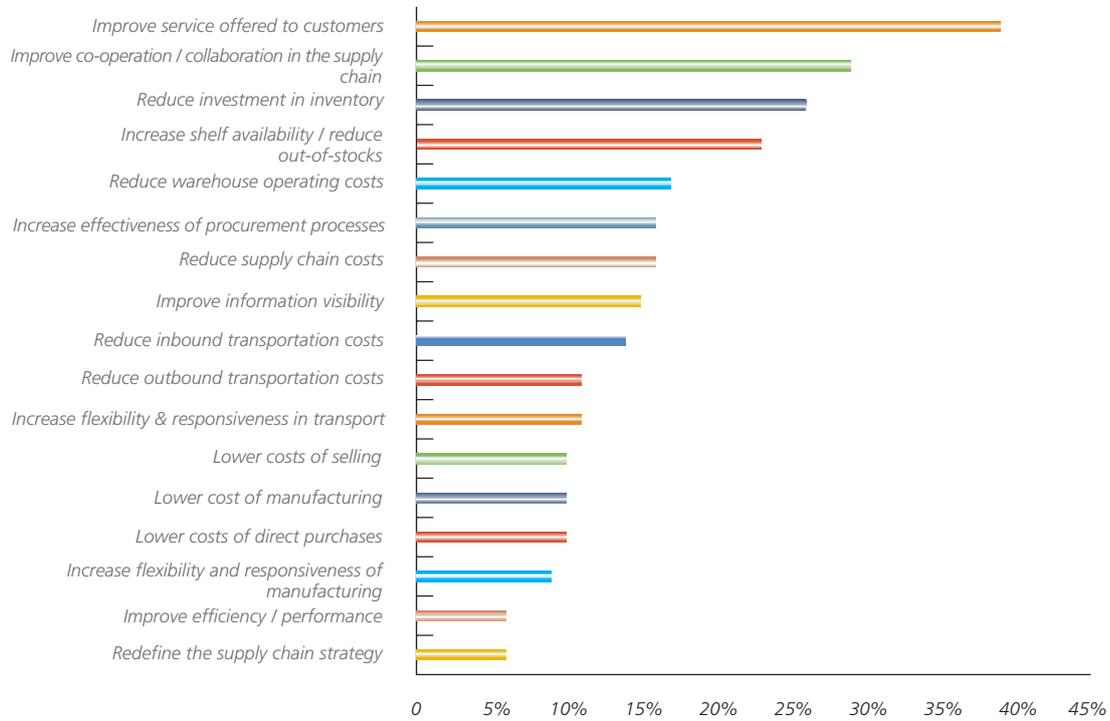
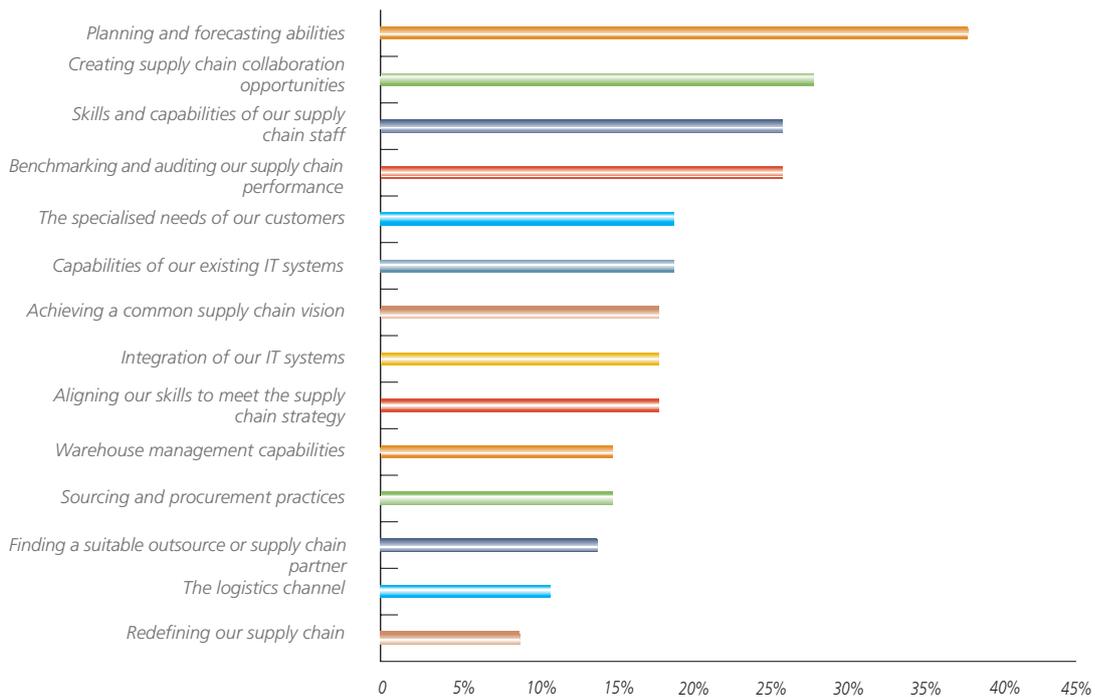


Figure 3. What are the top 3 challenges to achieving your supply chain objectives?



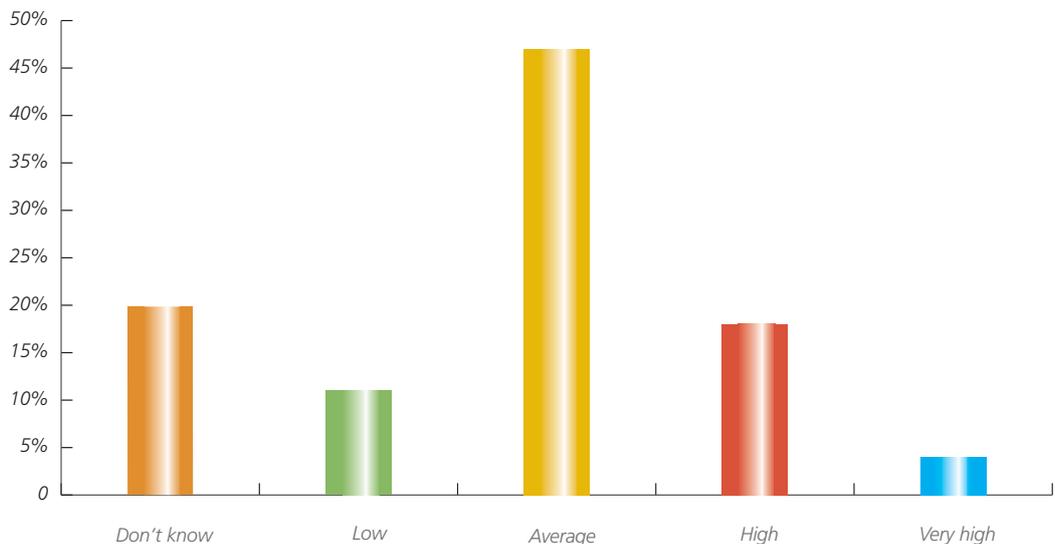
KEY LEARNINGS

This strong emphasis on improving service and creating effective collaboration goes along with many less prominent objectives to reduce costs. Most of these cost reduction objectives are also focused on increased efficiencies in individual supply chain functions, such as inventory, warehouse and procurement.

This emphasis on efficiency once again indicates a disconnect between business objectives and a new age supply chain effectiveness strategy evidenced by the continued commitment to the objectives of collaboration and service. This shift back to an emphasis on efficiency in these areas is coloured by two factors:

- the increased costs incurred through additional investment in individual supply chain functions, without the requisite level of return. This tends to be the case when companies invest especially in the hard asset base of their supply chain, such as owning warehouses or investing in truck fleets. Even the sub-contracting of transport and other individual functions to third party service providers has not represented value in terms of cost reductions for many organisations, since it is usually based on a combative master-servant relationship in which decisions are based on price and subject to diminishing returns in Rand terms, and an increasing opportunity cost in informational terms

Figure 4. How would you rate the return on your logistics fixed assets?



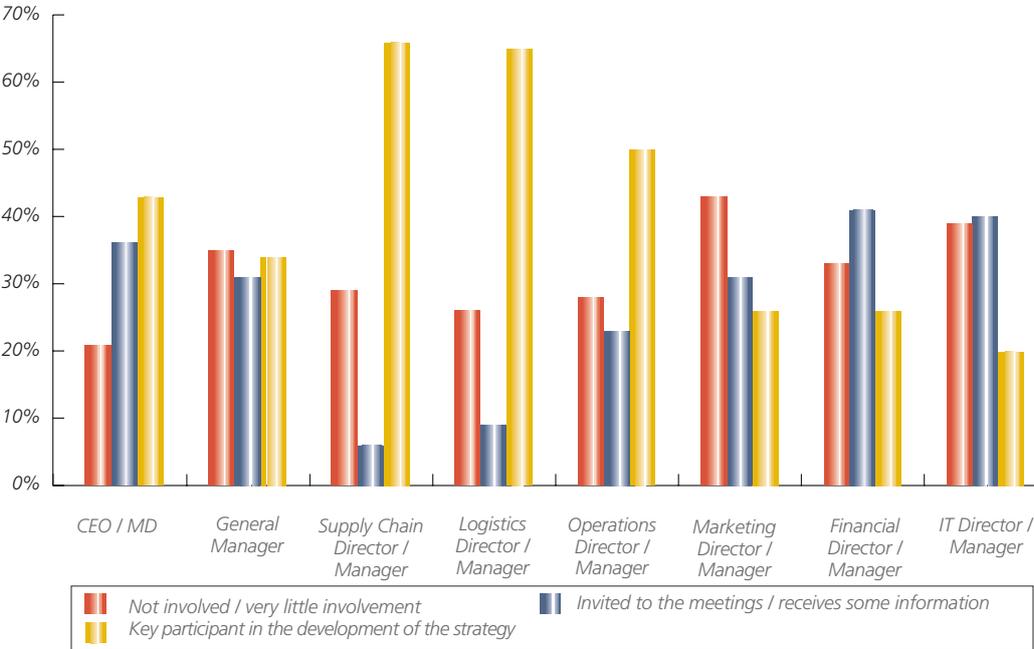
In terms of return on logistics fixed assets, fully 58% of respondents rated them as average or below, and a massive 20% of mostly senior executive respondents confessed to no knowledge of what returns on fixed logistics assets were! These cost factors, as we shall see, result in the tactical wish to reduce costs and increase efficiency in specific supply chain areas, rather than increase effectiveness through a view of supply chain reform which moves the asset base out of the organisation and recruits specialised planning and management skills – a more holistic and collaborative view of the supply chain network which respondents seem to be struggling to come to terms with. In effect, executives

are responding to what is urgent in their supply chains, rather than what is strategically important in the longer term. Reducing costs and increasing service levels in individual supply chain silos is akin to treating the symptoms of the problem rather than the cause. In fact, this silo-based approach tends to exacerbate the problem, since increasing service levels often result in increasing inventory to satisfy demand in uncertain supply situations, which then causes the vicious cycle of trying to reduce inventory and costs in the same silos.

- the second factor has to do with both the diversity of and level to which leadership and key functional managers are involved in developing supply chain strategy. Under 40% of CEOs and general managers are key participants in this process, and indications are that the involvement of marketing and financial directors is more defensive than strategically proactive. Given that the key strategic benefits of supply chain reform are competitive advantage and higher margin and market share, this is to say the least surprising.

The result of course is that the process is at best a stop-start affair that is low on the companies' strategic agendas. This kind of environment is one in which silo improvement for cost or service advantage will flourish and where often the competitive position of the holistic supply chain regresses.

Figure 5. How involved are the following executives or managers in developing the supply chain strategy?



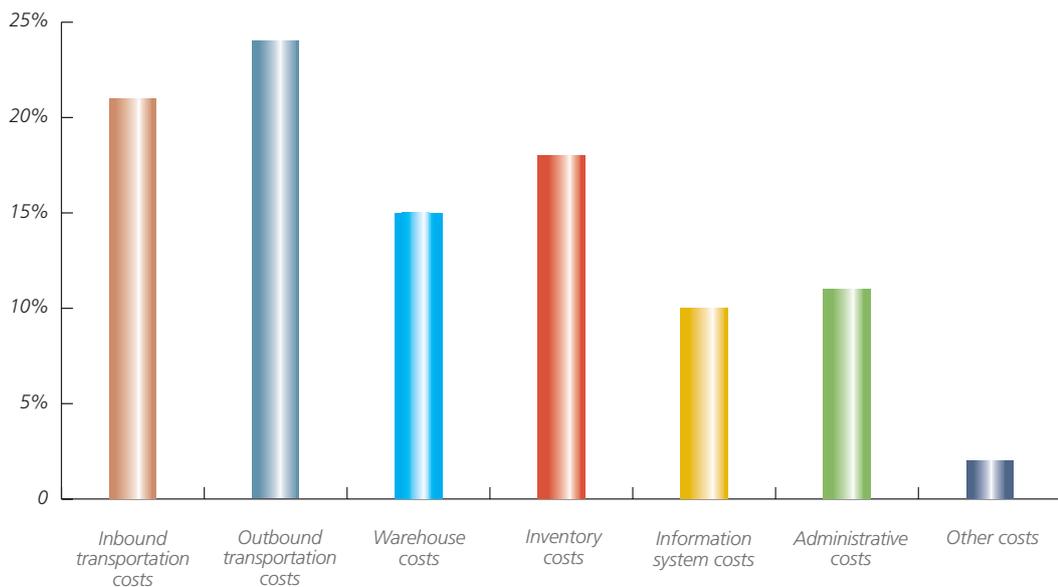
3. Going Nowhere Fast on Cost Reduction

A cursory look at the findings in the objectives, challenges, and costs sections in this year's study suggest that South Africa's supply chains are:

- too expensive
- too asset-heavy
- being let down by their third party service providers within individual silos
- still not being effectively measured

Respondents are focusing this year on the low-hanging fruit of cost reduction in an attempt to recoup some of the investment in assets and inventory of previous years, but the difficulties in integrating separate functions and service providers remain.

Figure 6. What is the relative split of your company's supply chain costs?



Over 75% of respondents this year locate costs in individual supply chain functions which are often outsourced, ie. transportation, warehousing and inventory.

Maintaining and improving on current service levels, which is the most important objective overall, will be difficult to achieve with isolated and costly supply chain operations. But an exclusive focus on operational efficiency rarely takes into account holistic factors in attempting the balancing act of cost reduction and service improvement.

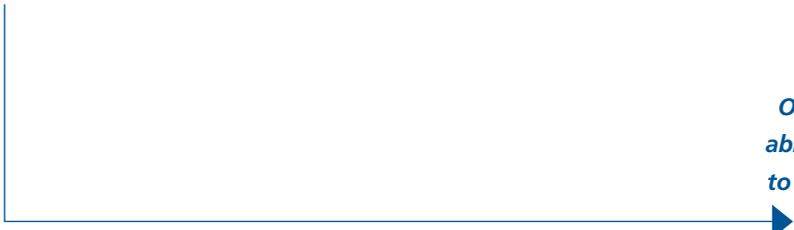
Many companies have outmoded procurement policies, unstable sources of supply, and supply chains in which inbound and outbound operations rarely mesh. This leads to the practice of investing in more inventory than is optimal to meet customer demand, which leads in turn to additional storage and warehousing costs, transportation capacity issues, as well as ultimately adding to the costs of goods sold. For inbound logistics there is clearly not much knowledge of what costs are, or how to reduce them, since very little is measured. For outbound, a focus on service delivery in a silo-based system leads to higher levels of expensive investment, and moves further away from true flexibility and responsiveness.

Most benchmarking studies, such as Deloitte's globalisation research, and a recent AMR report on the European market (European Supply Chain Outlook, May 2005), are pointing to the cost and service benefits of supply chain integration, and the negative impact of failing to integrate and collaborate – the higher costs, ultimately, of remaining within a fragmented and traditional supply chain structure. South Africa is no different.

4. The Struggle for Flexible, Agile and Responsive Organisations

Though it was not an explicit goal for measurement in last year's study, we pointed then to a growing need for businesses to proactively address the tendency in world markets to much shorter product cycles, product diversity and parity in terms of price and quality. These product developments marked the growing trend of the market to be driven by niched and specific customer demands and high levels of availability. One year on, the capacity an organisation has to become flexible and agile in responding to customer needs has taken on much more importance in terms of enabling competitiveness, due to the volatility and globalisation of the market.

We therefore posed a series of questions designed to glean information regarding companies' ability to respond quickly and flexibly to changes in customer demand patterns or to unexpected changes in supply chain processes. In each case more than 50% of respondents rated their ability as no more than average. In terms of a self-assessment this is at least honest, but is a damning comment on South Africa's ability to satisfy and improve on service levels and meet global performance benchmarks.



Over 50% of respondents rated their ability to respond quickly and flexibility to changes in customer demand as no more than average.

Since most companies in the study are sourcing or selling globally, and since the majority are in manufacturing or distribution, we can assume they are vulnerable to competition from companies whose supply chains are more responsive and flexible. On the surface such responsiveness comes at a higher cost, and is seen as a necessity in order to compete, because service is the key competitive advantage. In fact, costs increase when the available efficiency is wrung out of an optimised individual supply chain function without being tied into an integrated strategy which optimises and benchmarks holistically with other supply chain functions, and places management information and process at the forefront.

Creating agility and flexibility must therefore involve changing the view of the operational management of the business, so that their supply chain strategy becomes aligned to the strategic business objectives, rather than only to tactical goals. Operations often want longer lead times and large production runs, so that the manufacturing planning process is made simpler. However, often the business loses money through this ostensibly cheaper and more efficient production process, because it produces more slow-moving or obsolete stock, as well as out-of-stocks and overstocking situations. Agility in the supply chain network is therefore vital in leading the production and manufacturing operations in responding to changing demand in the market.

Similarly, marketing and distribution systems have to respond to changes in demand – which in turn requires a closer understanding of market needs and a higher degree of collaboration with customers.

To sum up:

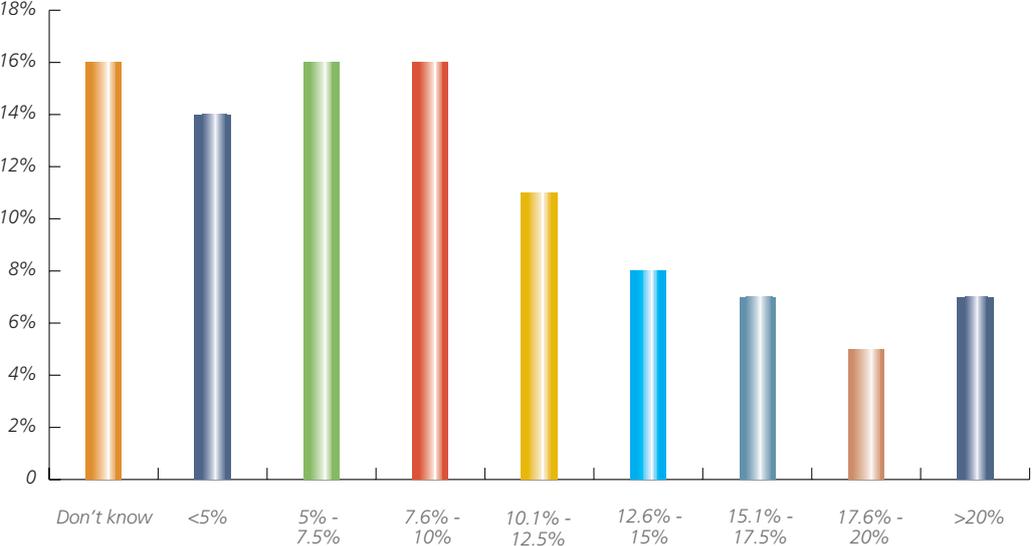
- improved service is increasingly vital to competitiveness – on global as well as local fronts
- South African companies have chosen to become more responsive to changing service demands by increasing inventories to ensure survival – but this comes at a cost, and treats the symptom rather than the cause of responsiveness and flexibility
- as a result, the companies surveyed rate their responsiveness highly, but fully one-third of the JSE's capital is applied to inventory. Also, inventory related costs (including holding and warehousing) amount to as much as 33% of the total logistics costs of companies surveyed

These high costs reflect a lack of a supply chain method that is driven by strategy, and a lack of the high-level strategic skills to drive the organisation to effective supply chain reform. Until strategic management and visibility across the supply chain network enable the degrees of collaboration and integration necessary to realise them, it will be difficult for South African companies to achieve the twin goals of high service levels and low costs.

5. Getting on Top of Benchmarking and Measurement

Instead of focusing only on costs in this year's study, the remit has been broadened to include benchmarking and performance measurement. The results are startling, but for the wrong reasons. As we have seen in previous years, companies regularly underestimate their supply chain costs when benchmarked against international standards. We know that logistics activity is estimated to be 15.2% of GDP in South Africa (2005 CSIR study).

Figure 7. What is the cost of your company's supply chain, expressed as a percentage of sales?



When asked to express company supply chain costs as a percentage of sales, a full 16% of respondents confessed no knowledge at all of this percentage. Furthermore, 46% of the sample estimated supply chain costs to be less than 10% of sales. Clearly, something is awry.

In an attempt to drill down into possible misperceptions about costs, as has been our contention in previous years, we enquired after knowledge of inbound costs – considering that the majority of respondents are positioned in manufacturing or distribution – and about the benchmarking of costs. Again, a full 50% professed to at best 'some' knowledge of inbound costs, and 66% at best 'sometimes' benchmark their costs.

Once more we must bring out the old adage that what you don't measure, you can't manage. This lack of consistent and available information about the full cost of an organisation's supply chain can easily result in poor management decision making. We would venture to suggest that it is difficult to locate the source of inefficiency and cost in individual supply chain functions when one does not have the full picture and prognosis.



Companies surveyed rated their responsiveness highly, but one third of their capital is applied to acquiring and holding inventory.

A key element of understanding and managing the costs of the supply chain, therefore, is instituting auditing, measurement and benchmarking processes. Only 50% of this year's respondents admit to having KPIs in place for measuring supply chain performance. Not all of these will be financial indicators, but without them improvement is made difficult.

When a business understands the web of supply and demand relationships from a networked point of view, rather than from the linear perspective of only looking at immediate suppliers and customers, then it is in a position to examine those cost components that make up final delivered costs to the business. When collaborative efficiencies can be deployed, rather than the current focus on operational efficiency and cost reduction, and the collaborating parties benefit from long-term supplier relationships or redesigned distribution networks, for instance, then supply chain costs can be significantly reduced.

Auditing and benchmarking processes also enable businesses to identify what costs are hidden internally in such areas as obsolete or excess slow-moving stock, lost sales, goods not delivered or to the wrong place at the wrong time, and so on. The benefits of identifying these inhibiting factors and taking action to make the organisation more flexible and responsive include service level increases, and reductions in the costs of obsolete stock and out-of-stocks, but it also leads to a reduction in the amount of fixed and working capital deployed in logistical activity.

6. The Skills Time-bomb

As with last year's findings, the skills and capabilities of supply chain staff still rates as one of the top challenges to achieving business objectives. The lack of alignment between supply chain strategies and business objectives partly reflects, as we have suggested, a lack of the appropriate high-level executive focus to put South African businesses on the path to supply chain effectiveness.

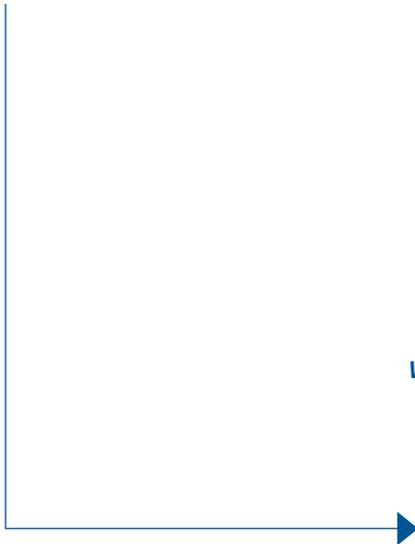
The tendency to outsource of "non-core" supply chain functions such as transportation and warehousing indicates a degree of available skills at the tactical or operational level, which are efficient in reducing costs and increasing service levels within silo-based functions. But such an operational focus often comes at the cost of an information disconnect between individual silos and to strategic management. It is a greater management focus at the strategic level that is needed to introduce effective integration, collaboration and visibility and which will make South African companies more responsive and agile in the increasingly competitive global supply chain environment.

The relative lack of strategic focus and the paucity of corresponding skills to implement such a strategy, represents a real risk not only to the survival of companies in this global environment, but also to the survival of industries and to national competitiveness. The skills time-bomb is as big a problem to global competitiveness as currency fluctuation has been for South African companies, and is as important to them as the restoration of the national logistics infrastructure.

Conclusion: South Africa's Supply Chains – Quo Vadis?

Overall this year, South African companies seem to know what they want from their supply chains. However they are looking for answers in the traditional silo-based areas, and seem unsure of where and how to embark on the proactive re-engineering path that has benefited supply chain first movers in many industries over the last few years. If they are to move forward, South Africa's supply chains have to take on board the lessons which globalisation is teaching countries like India and China. These countries realise the benefits of, and are profiting from, supply chains which are service and solution oriented, and are driven by information and management skills. They are competing against our own supply chains, which are still expensive, largely asset-based, and struggling to develop beyond the borders of South Africa.

A refocus is needed, to enable existing tactical efforts to reduce costs and increase service levels. This reform needs to seek competitive advantage from the supply chain, and use it to increase market share and margin. If the involvement of senior executives (including CEOs, Financial and Marketing Directors) in supply chain strategy is at the level of the tactical, and is essentially defensive and cost focused, then the potential benefits will remain elusive. The warning signs are everywhere. Those businesses and industries that ignore them do so at their own peril. Those that grasp the nettle will find market share, margin and sustainable competitive advantage is the prize.



We need to take on board the lessons globalisation is teaching countries like India and China. These countries are profiting from supply chains that are service and solution oriented, and are driven by information and management skills.

Section One – The Respondent Profile

Figure 8. Participant profile: industry

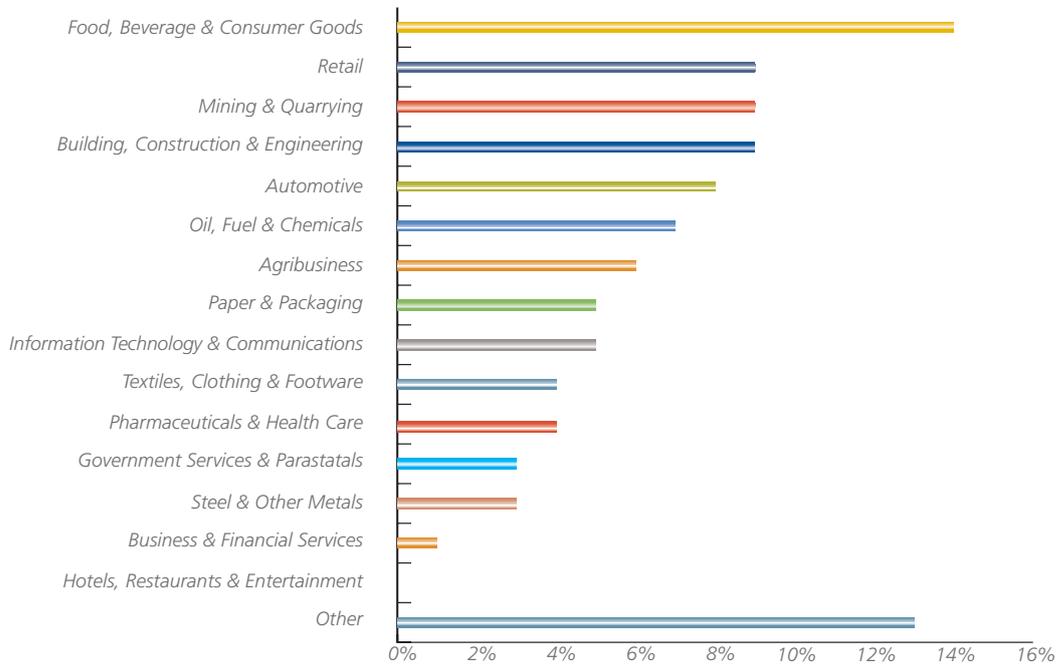


Figure 9. Participant profile: job function

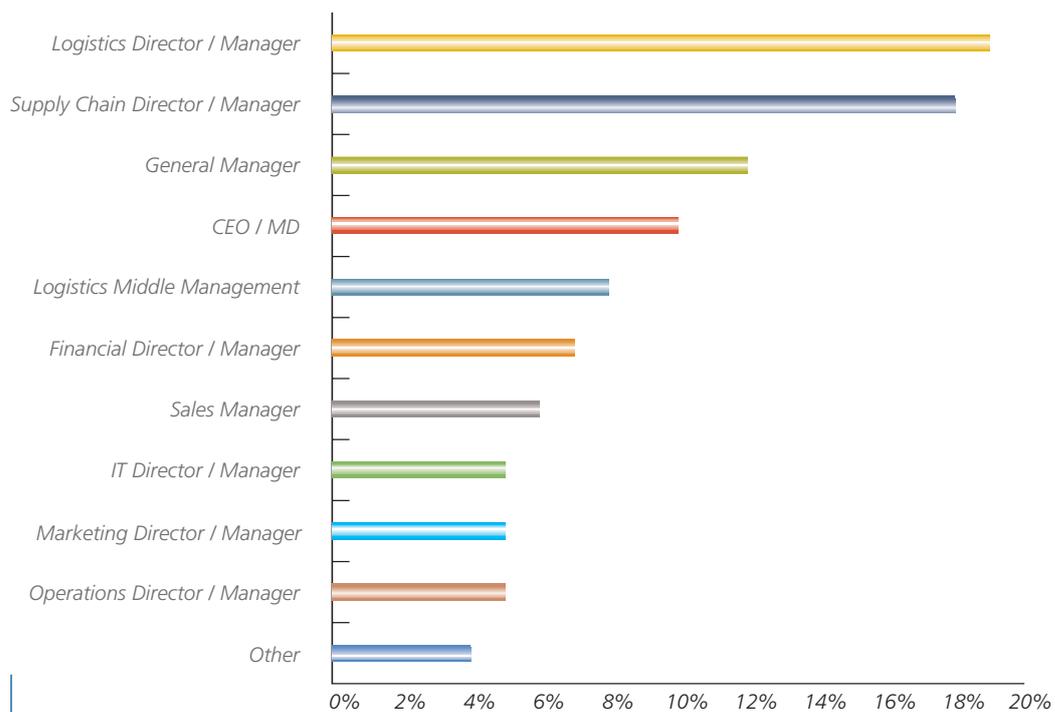
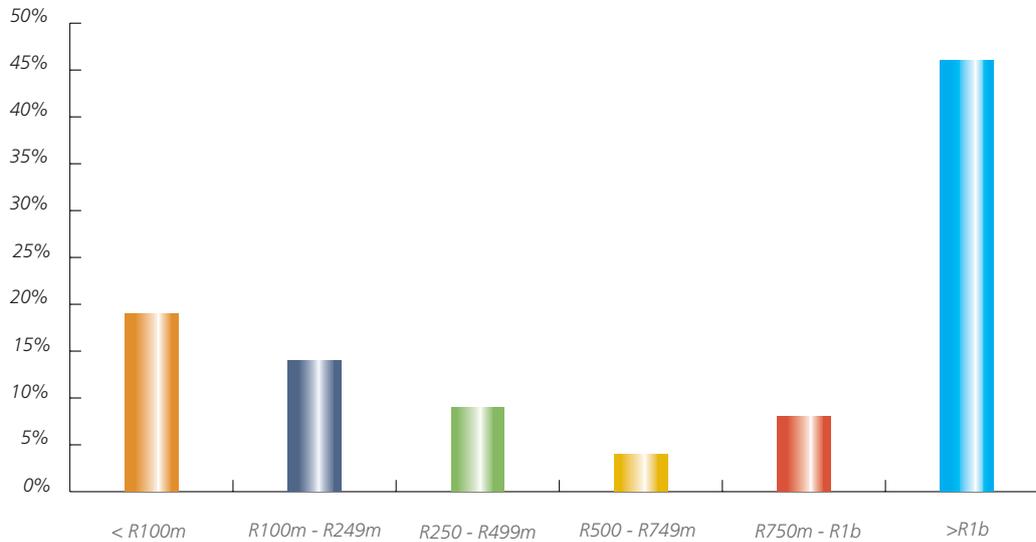


Figure 10. Participant profile: size of company



Once again, complete industry, company and job profiling was done. This year the sample size has grown to an impressive 330 respondents for the overall report. Representation was greatest this year in the food, beverage and consumer goods industry, with significant representation in automotive, engineering, mining, retail, oil and chemical, agribusiness and pulp and paper industries. A wide range of other industries are represented in the study. Detailed major industry sector reports will be available at industry presentations. As expected, the major respondent industries are those with vested interests in and a high awareness of the importance of supply chain reform, and with most to gain from significant reductions in costs and improvements in service levels.

There are again a high proportion of senior executives in the respondent sample, with 22% being CEOs, MDs or General Managers. The percentage of the sample represented by senior logistics or supply chain management has risen from 30% to 37%. A pleasing increase in the number of marketing and financial managers participating is also evident.

Some 46% of companies participating have turnover of R1bn or more per annum, which indicates a high quality of response. The profiles thus maintain the integrity and credibility of the data which is characteristic of the **supplychainforesight** study.

Section Two – Supply Chain Strategy

Figure 11. What are the top 3 objectives for your supply chain over the next 12 months?

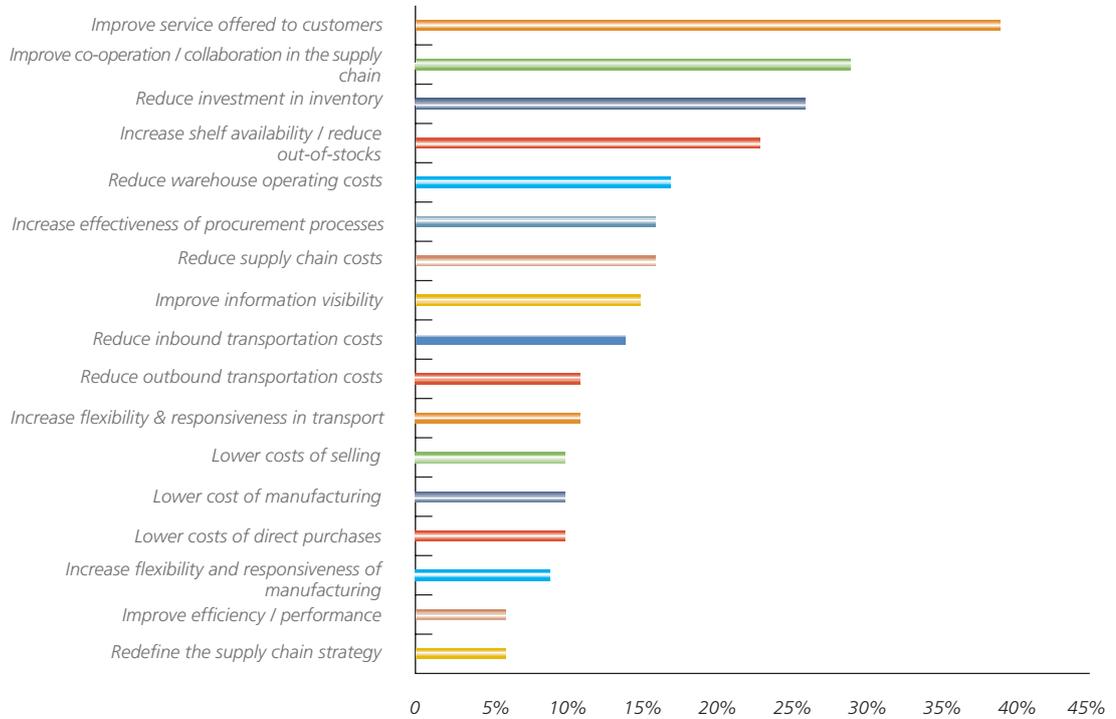


Figure 12. What are the top 3 challenges to achieving your supply chain objectives?

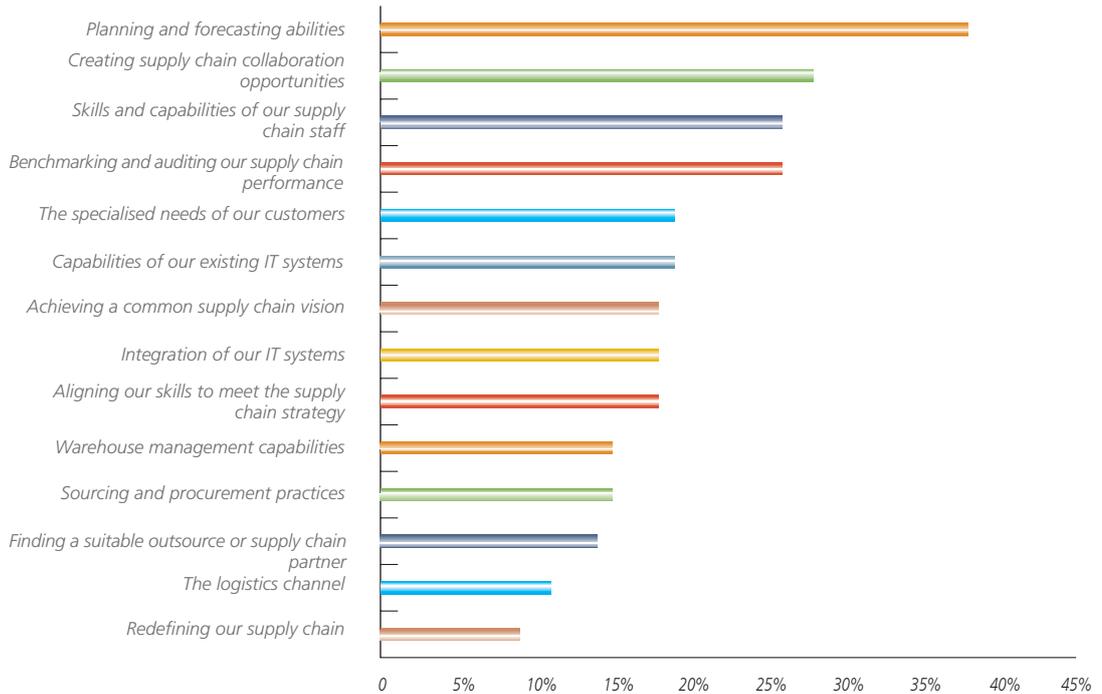
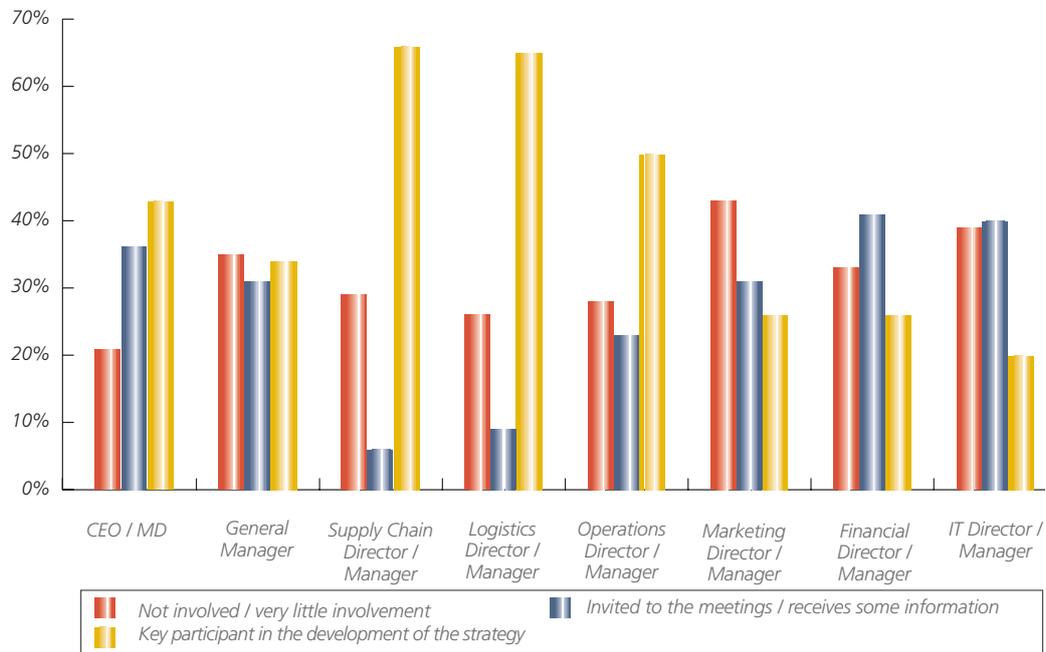


Figure 13. How involved are the following executives or managers in developing your supply chain strategy?



Fully 78% of our respondents rate the strategic importance of supply chain as having increased in the past year. We also drilled down into the involvement of executives in supply chain decision making, and found a much more widespread picture of involvement across the executive spectrum, albeit at a disappointing level of involvement. As we mentioned last year, this might be explained by finance, marketing and IT executives taking a watching brief on supply chain reforms that might affect their portfolios, rather than leading the revolution for their own strategic purpose.

The key questions in terms of tracking South African specific trends and issues have always been about the objectives and challenges for South African supply chains for the coming year. This year, as discussed at some length already, the major three objectives are:

- service Improvement
- improving collaboration
- reducing investment in inventory

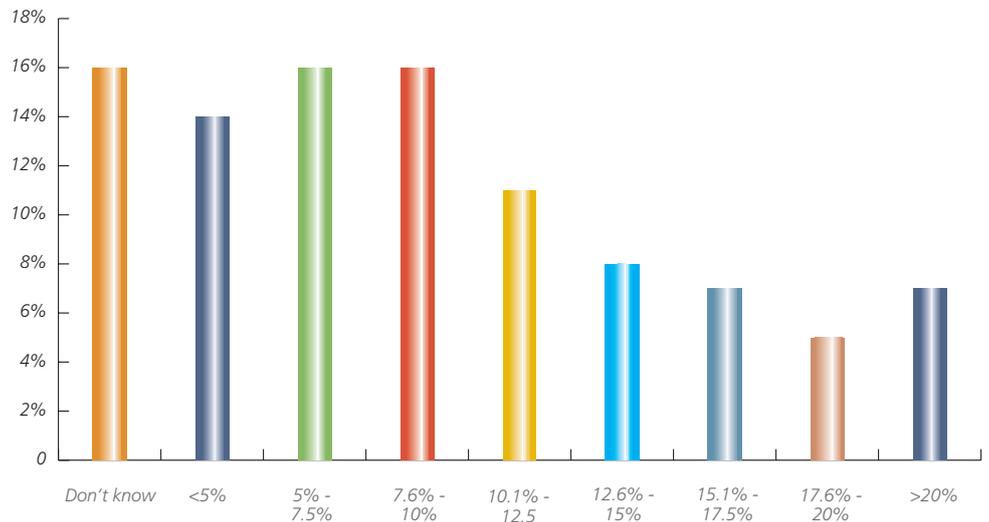
The major challenges to realising these objectives are:

- planning and forecasting
- creating collaboration opportunities
- skills shortages

There has been little change in either the objectives or challenges expressed by the sample between the 2006 report and last year's findings. It is worth mentioning that in part the challenges, particularly the skills shortage, that may be to blame for the lack of progress in aligning supply chain and business strategies. Our view is that although senior managers understand the benefits of supply chain reform, they default to a tactical approach to unlock the benefits of cost reduction and service enhancement, partly because the supply chain question is not yet seen as high enough on the strategic agenda, and partly because of the shortfall of high level collaborative and integrative supply chain skills. This symptomatic approach will yield no long term solutions and creates sustainability risks for the organisation.

Section Three – Supply Chain Costs

Figure 14. What is the cost of your company's supply chain, expressed as a percentage of sales?



A symptomatic approach to cost reduction and service enhancement will yield no long-term solutions. It creates sustainability risks for the business.

Figure 15 . What is the relative split of your company's supply chain costs?

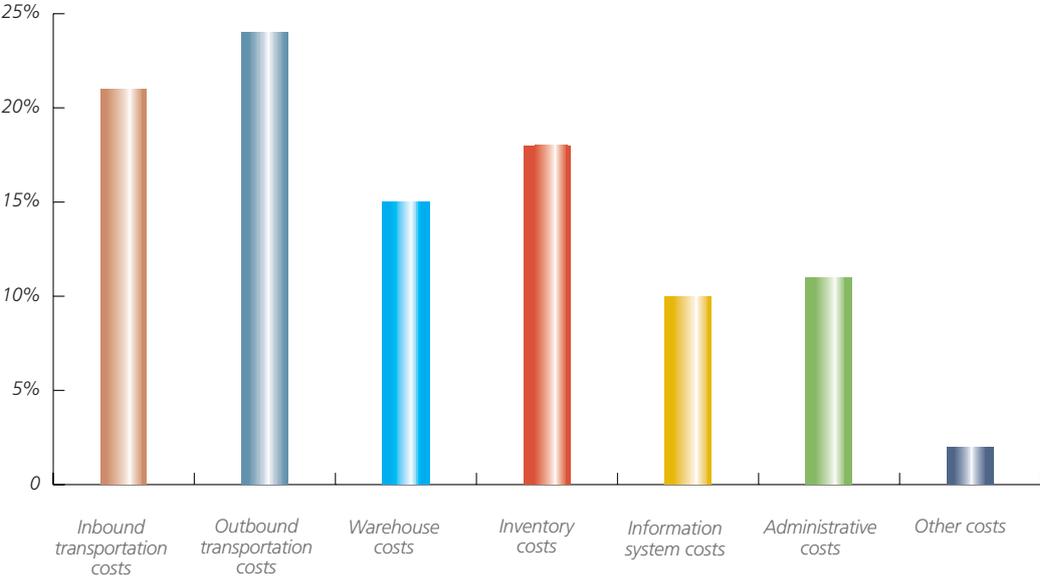
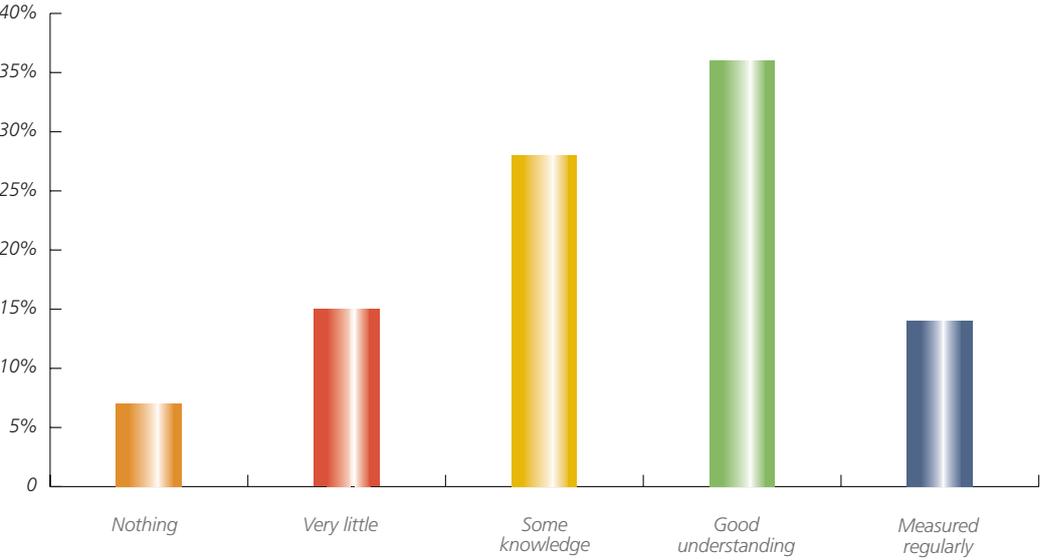


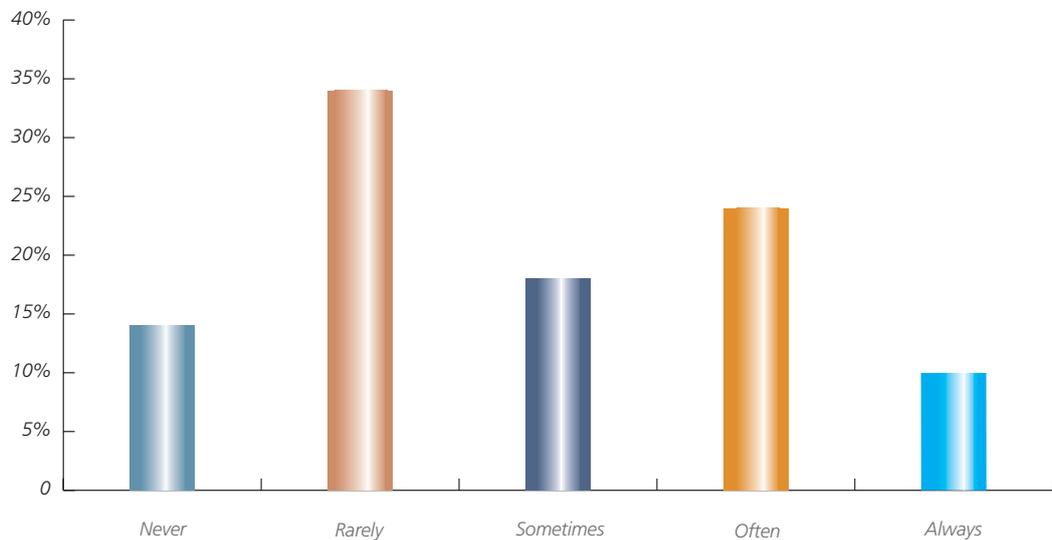
Figure 16. How much do you know about the inbound logistics costs of raw materials, components and spares?



Apart from enquiring as in previous years, about the overall estimates of supply chain costs in respondent companies, we added some levels of detail this year in order to try to glean a more in-depth picture of perceptions of the supply chain cost landscape. It's clear from our previous discussion that individual supply chain functions – especially transportation and warehousing – are indeed perceived as making up the bulk of supply chain costs. Not surprisingly, they are also the biggest targets for direct cost reduction. But figure 14 and figure 16 put these opinions about overall costs in some doubt. In figure 14, a scary 16% of the respondents simply don't know the costs of the supply chain. From figure 16, 28% of respondents admit to 'some knowledge' at best about inbound logistics costs, with a full 22% knowing little or nothing. Inbound costs are logically where many of the supply chain costs are hidden: in the Cost of Goods. They are simply seen as a form of supplier logistics costs. A lack of knowledge and management in this key area translates to a lack of management ability to reduce these costs over time, or critically to improve the responsiveness of the overall system.

Support for this finding emerged from the question regarding the benchmarking of costs, with 66% of respondents benchmarking costs only 'sometimes' at most, and a full 14% of respondents never benchmarking costs. Again, without standards against which to measure costs and service levels, it becomes very difficult to manage a supply chain where cost reduction and service level improvements are the goals.

Figure 17. How often do you benchmark your costs against your competitors' or other industries'?



Section Four – Supply Chain Performance and Benchmarking

A new section in the questionnaire this year attempted to find out how companies are establishing performance benchmarks for their own supply chains, and also how these benchmarks are turned into action which meets the demands of a new global economy. A major focus of this set of questions was directed at gauging the agility, flexibility and responsiveness of local companies to volatile supply chain conditions. This focus was measured on the one hand from a cost and service point of view, but also from a return on supply chain investments point of view.

Figure 18. How often do you supply perfect orders to your customers (ie. right time, right quantity, right place, right price)?

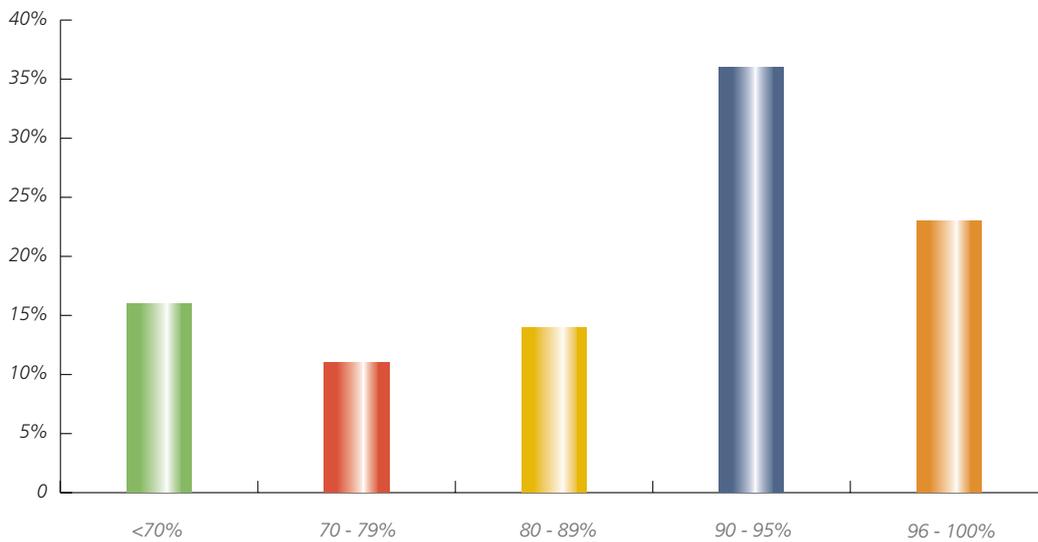


Figure 19. How would you rate your ability to quickly adjust to changes in a customer's needs?

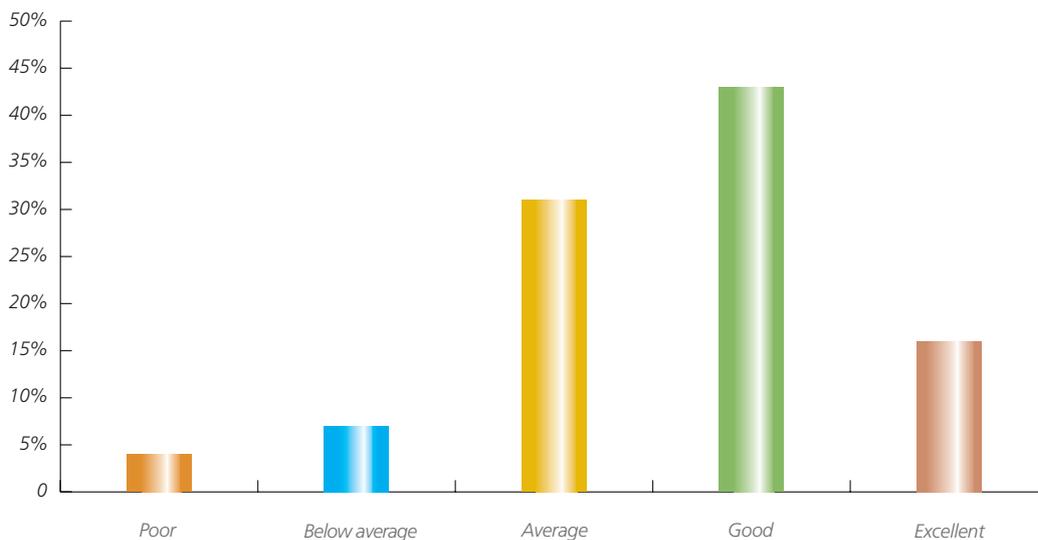
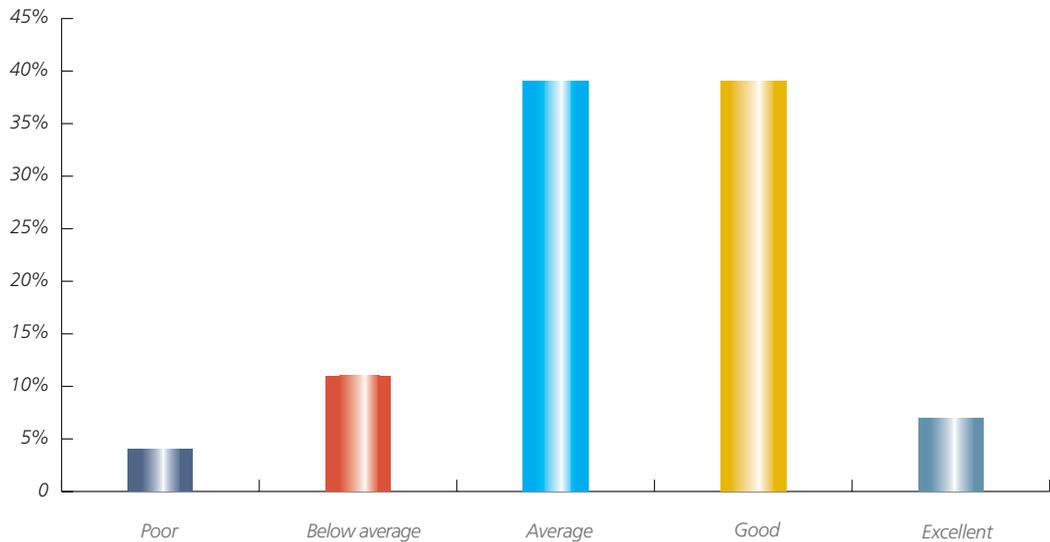


Figure 20. How would you rate the speed with which your supply chain can react to changes in customer demand, supplier reliability or environmental conditions (eg. currency)?



In general, respondents were positive about their ability to provide a high level of service, and to respond to overall changes in customer needs – which is especially important in industries such as FMCG and retail, which provided significant responses. The ability to react effectively to changes in specific customer demand or in supplier reliability or to environmental conditions such as natural disasters or currency fluctuations brought a more ambiguous response, with only 46% rating this capability as above average. Such an ability is crucial in a more globalised supply chain environment, where a natural disaster may wipe out an important source of supply, and currency fluctuation may spell major cost for companies without alternative supply lines.

Figure 21. How would you rate your real-time supply chain data visibility and accuracy?

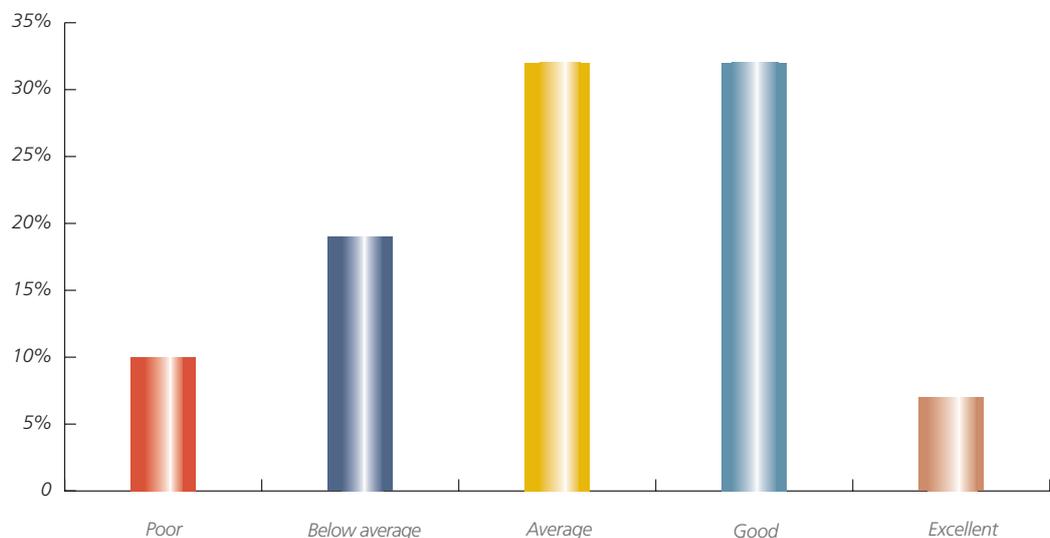


Figure 22. How often do you consider best practice when redesigning or changing processes within your supply chain?

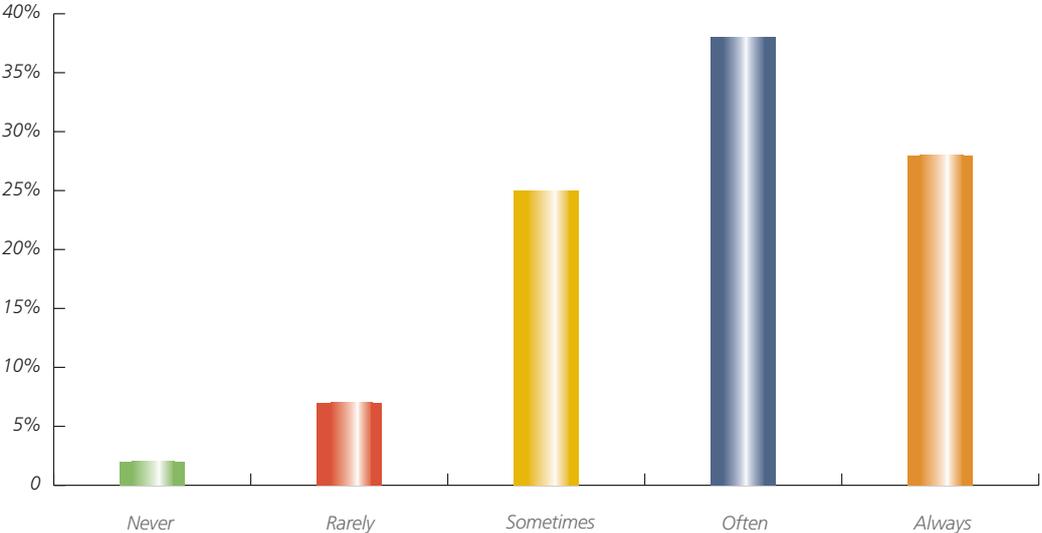
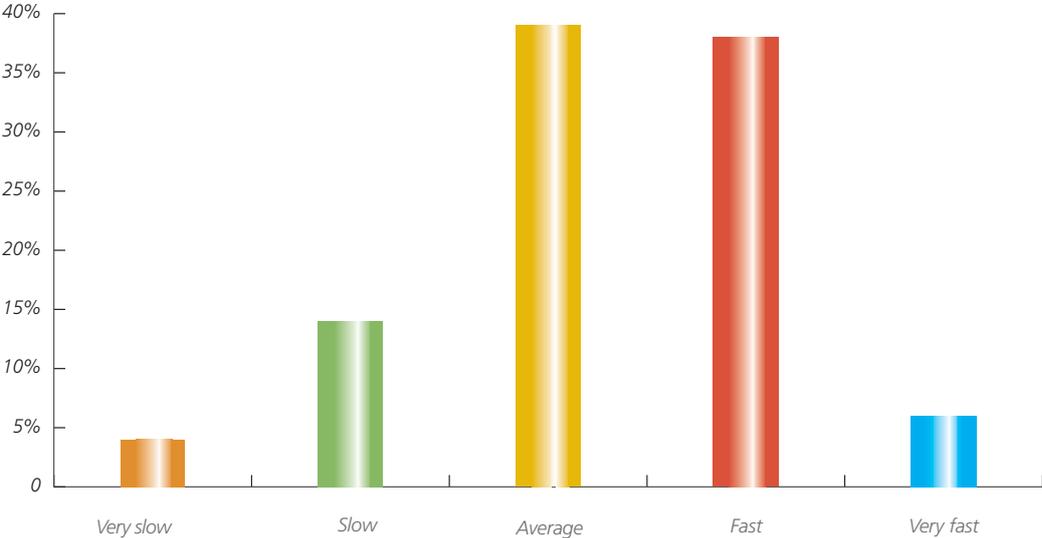


Figure 23. How would you rate the speed at which your supply chain responds successfully to delivering unplanned products / services to your customers



The questions, regarding data visibility and accuracy, as well as the benchmarking of process redesign, point to an underlying and fundamental issue which emerges from this year's report. Data visibility and accuracy is not rated highly at all – with 61% of respondents rating it average or below. This score is supported by the fact that the greatest challenge this year is planning and forecasting.

These responses indicate a serious difficulty with management information across the supply chain, and, one would assume, a difficulty in benchmarking costs and processes as a result. However, 66% of respondents consider best practice when redesigning or changing processes 'often' or 'always'. The reason for the anomaly is simple: redesigning processes in this case, in all likelihood is taken to refer to individual supply chain functions, with specific performance benchmarks in that area, rather than a planning process which benchmarks holistic supply chain functionality, reliability, costs and so on.

Figure 24. How would you rate the time taken from paying for raw materials to receiving cash for the sale?

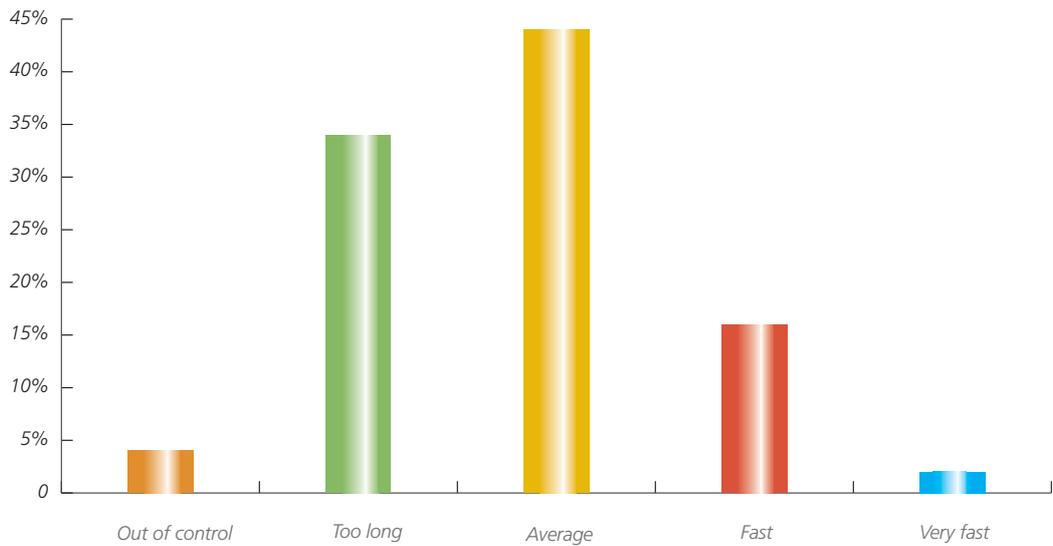
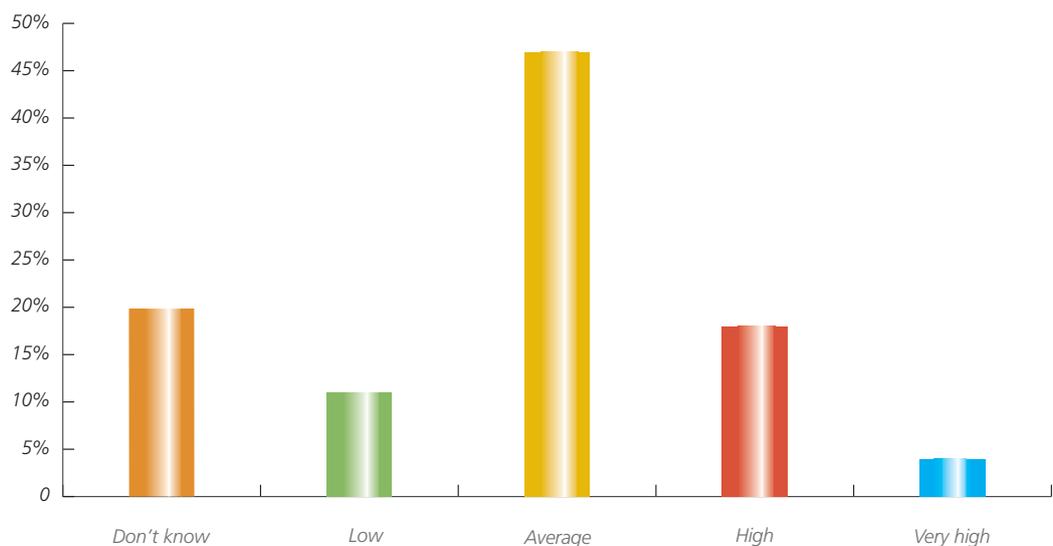


Figure 25. How would you rate the return on your logistics fixed assets?



As we have discussed elsewhere in the report, the responses to the cash-to-cash cycle and the return on logistics fixed assets questions point to a poor performance for local supply chains in these important areas. Our contention is that in an environment where the pressure to deliver high service levels is growing, and in the absence of strategic reform, the only way of ensuring high service levels is to invest in inventory and supply chain fixed assets – with the inevitable low return on these assets.

Figure 26. How many of your logistics functions (inbound & outbound transportation, warehousing, inventory management, procurement, forwarding and clearing) are integrated by process and information flow?

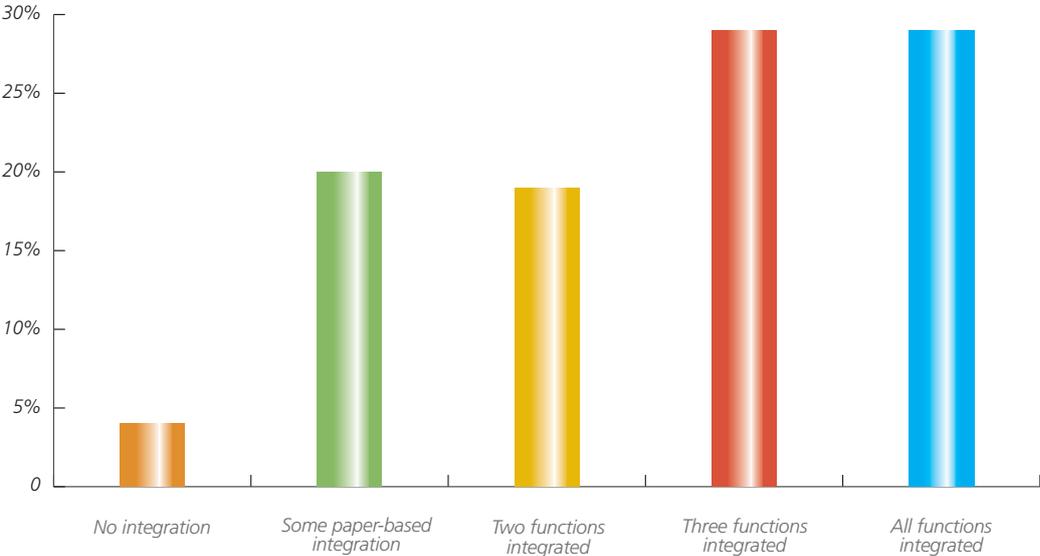


Figure 27. Do incentives for performance in one logistics area sometimes cause less than optimal performance in other logistics areas?

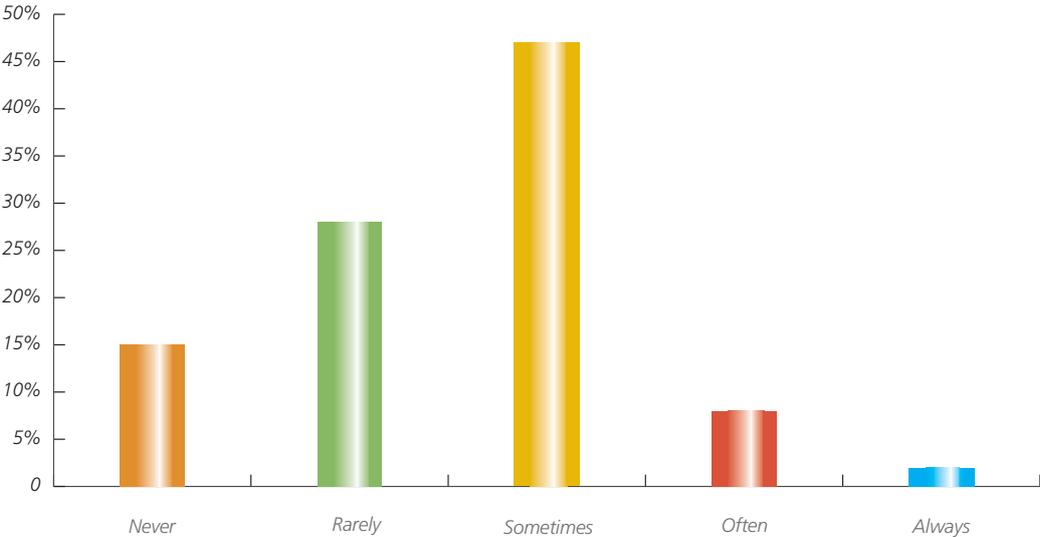


Figure 28. How often do you engage in continuous improvement discussions with your suppliers or customers – or even competitors?

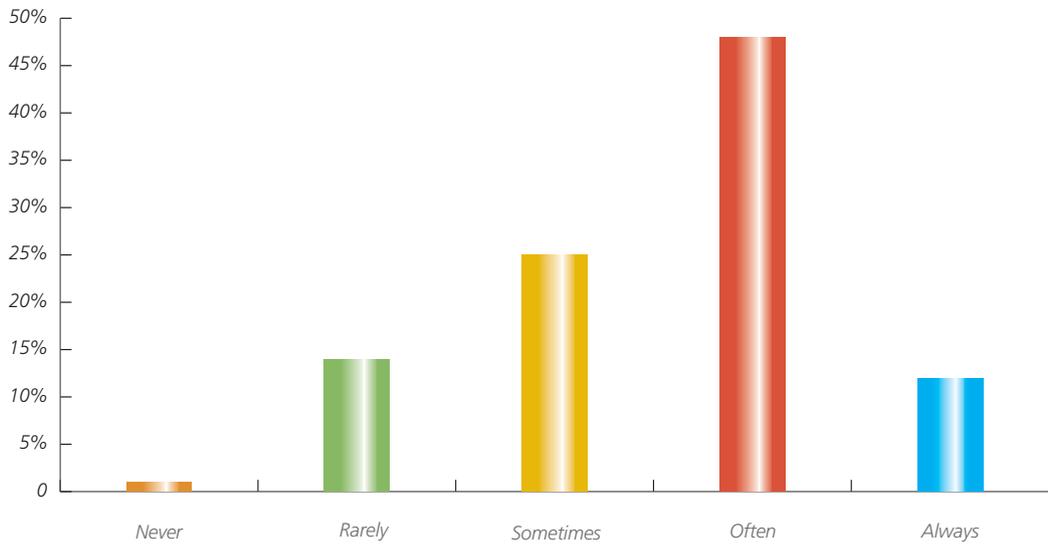
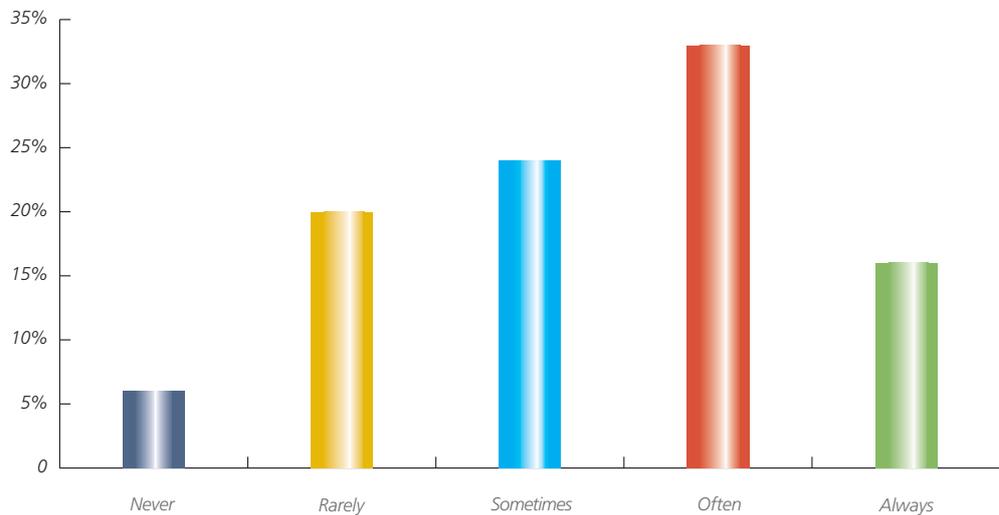


Figure 29. How often do you, your suppliers and customers use quantifiable measures (KPIs) to continuously identify gaps or disconnects within your supply chains?



Figures 26 to 29 paint a picture of a traditional supply chain where much of the information exchange happens only within specific silos. Our view is that many of the respondents who have three functions integrated are probably referring to outbound logistics situations. Integration and continuous improvement

continues to be some way off for South African supply chains by this evidence, if increased efficiency in silos continues to be the route to cost reduction and service level improvement.

Figure 30. How would you rate your ability to accurately forecast changes in customer demand?

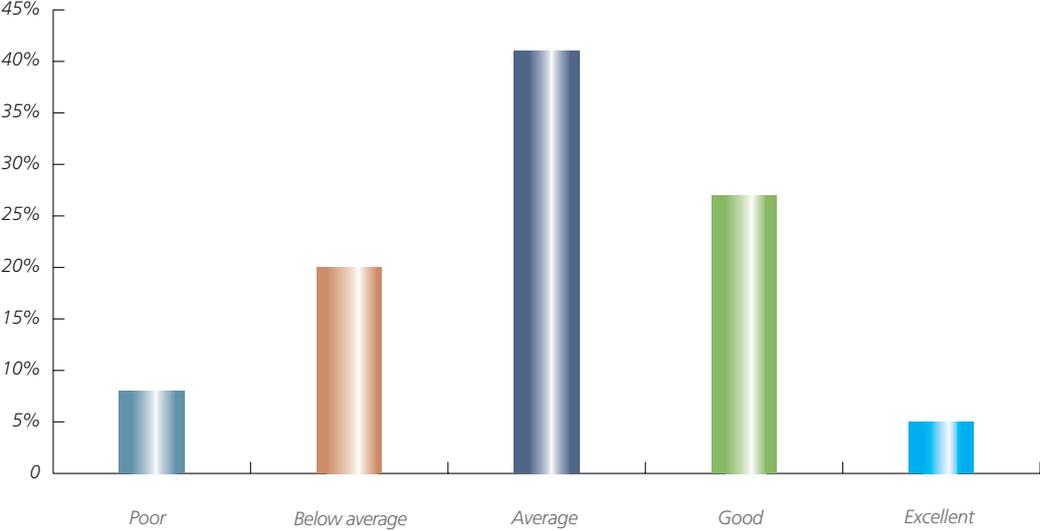
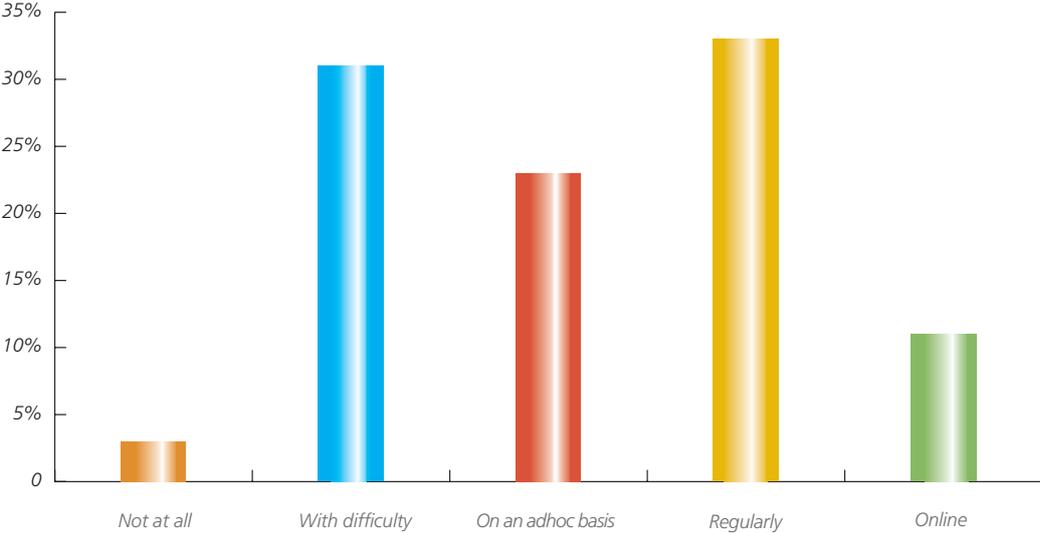


Figure 31. Are you able to monitor changes in inventory and demand both upstream (to customers) and downstream (to suppliers)?



Figures 30 and 31 confirm the findings in 2005 that South African companies regard their greatest challenge as forecasting demand. The tactical effect of this, given that service levels are non-negotiable, is that inventories balloon and ROI on supply chain assets reduces.

Figure 32. "We only improve our supply chain when we encounter a problem."

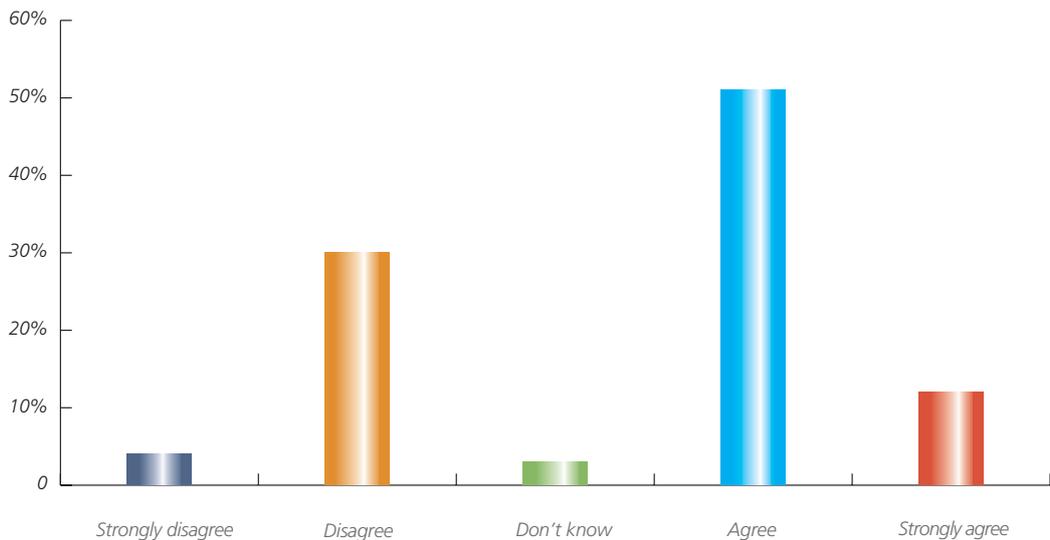
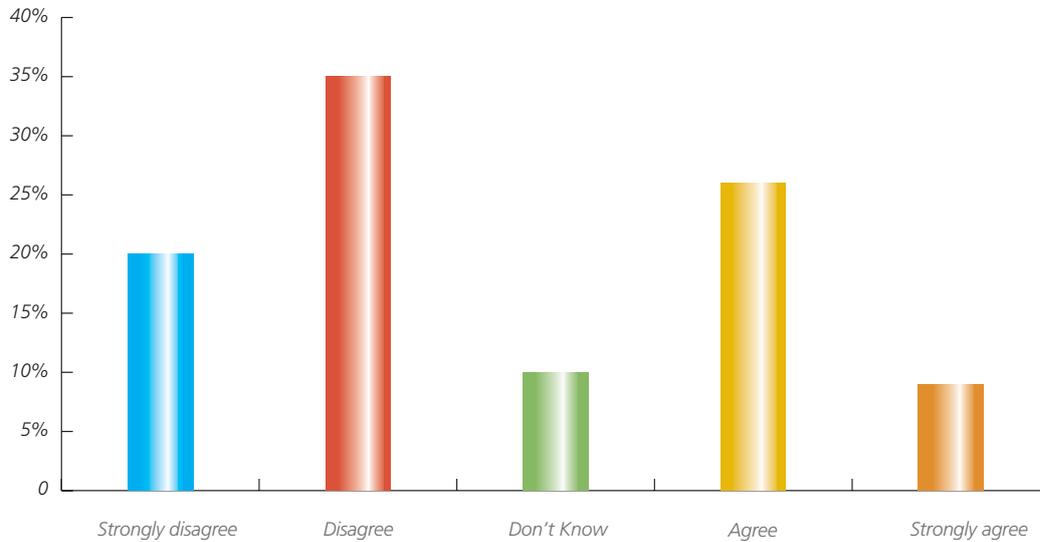
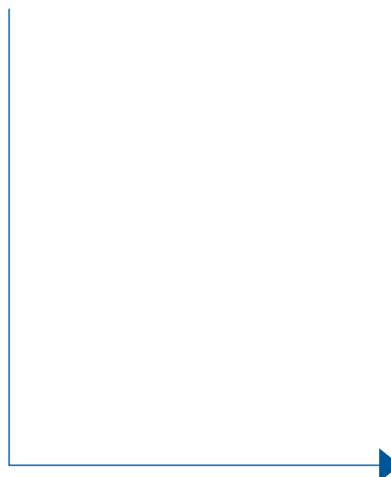


Figure 32 tells a story of a lack of high-level and proactive supply chain planning in itself. Some 63% of respondents feel that they only countenance supply chain reform when they encounter a problem. The tendency of supply chains is to accrete over time and to expand through historical accident. Because original warehouse or transport routes were in certain locations, they continue to be there, for example. This means that facing supply chain reform means a fundamental overhaul of the business. Most companies only entertain this kind of upheaval if they are forced to face it through a 'compelling' external event – such as a low-cost competitor entering their market. Of course, the prospect of higher margins and increased market share can also lure brave CEOs to undertake reform voluntarily. The increasing globalisation of markets will pose interesting choices to South Africa's senior management. They are forewarned. Change for advantage while you can, or change to survive when you are forced to.

Figure 33. "We prefer to manage our supply chain ourselves as opposed to outsourcing it."



In Figure 33, the extent of the preference for outsourcing is encouraging. However, considering there is also concern over the skills gap, and dissatisfaction with costs and performance in silo-based functions where outsourcing traditionally takes place, it is vital that companies begin to understand outsourcing differently. Outsourcing should be seen as the bringing of skills and resources into the company through partnerships with specialists, rather than as a way of reducing costs on a silo basis, or worse, as the solution to a problem function.



Some 63% of respondents only improve their supply chain when they encounter a problem

Health Check: South Africa's Supply Chains

Our report concludes with two measures we have adapted from industry standard benchmarking methodologies to apply to the overall picture of South Africa's supply chains. The first, a health check, measures company performance against eight different criteria and is designed to compile a comprehensive picture of the effectiveness and efficiency of a supply chain. These criteria are:

- Reliability
- Responsiveness
- Flexibility
- Costs
- Asset Management
- Integration
- Collaboration
- Visibility

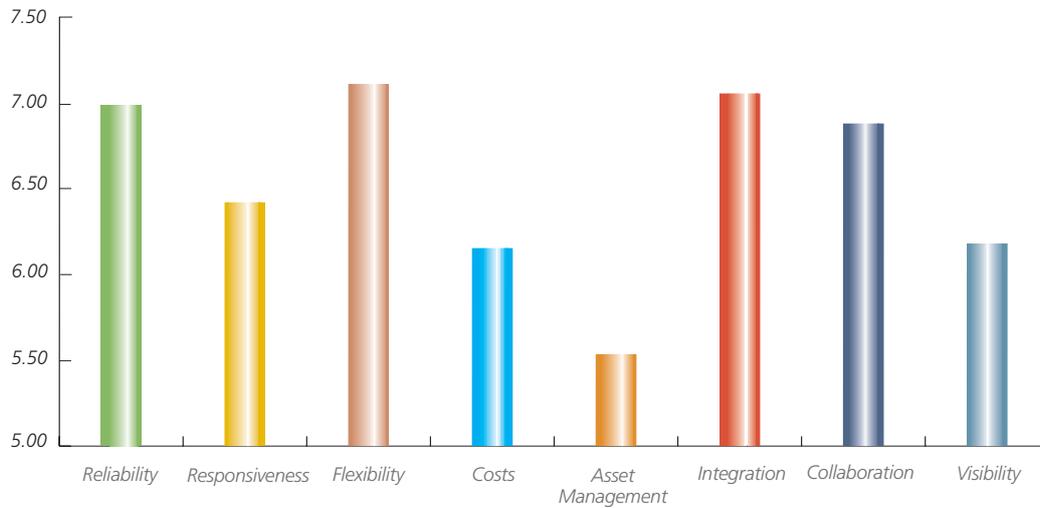
The scores are based on the following guide:

- 2-4: poor performance, low levels of competitiveness
- 5-7: moderate performance, patchy delivery. Strong in certain areas, unreliable or weak in others
- 8-10: good performance which will contribute to supply chain excellence

When measured across the many different industries participating in the research study, the scores tend to 'flatten out' and cluster around an average, which presents a somewhat misleading picture of the health check benchmarking measurement. When measured by industry and when we benchmark individual companies against companies in their industry, a rather more interesting and usable picture of performance across the eight criteria emerges.

The health check and axial matrices can be used to benchmark your supply chain performance against your industry standards.

Figure 34. Health Check



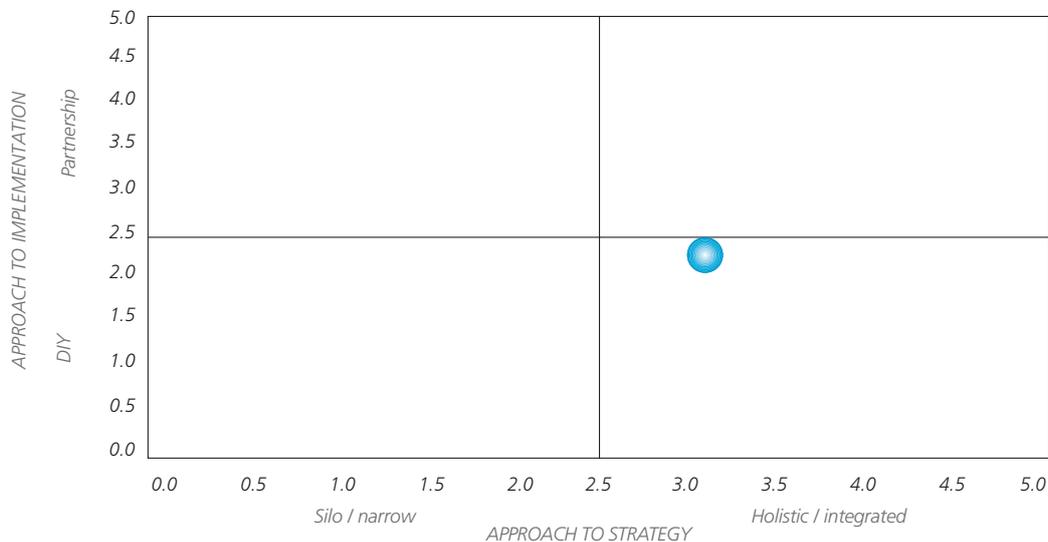
The second measure we have devised is an axial matrix measurement which plots the positioning of a company or an industry along the following axes:

- Level of Proactivity
- Approach to Strategy
- Approach to Implementation

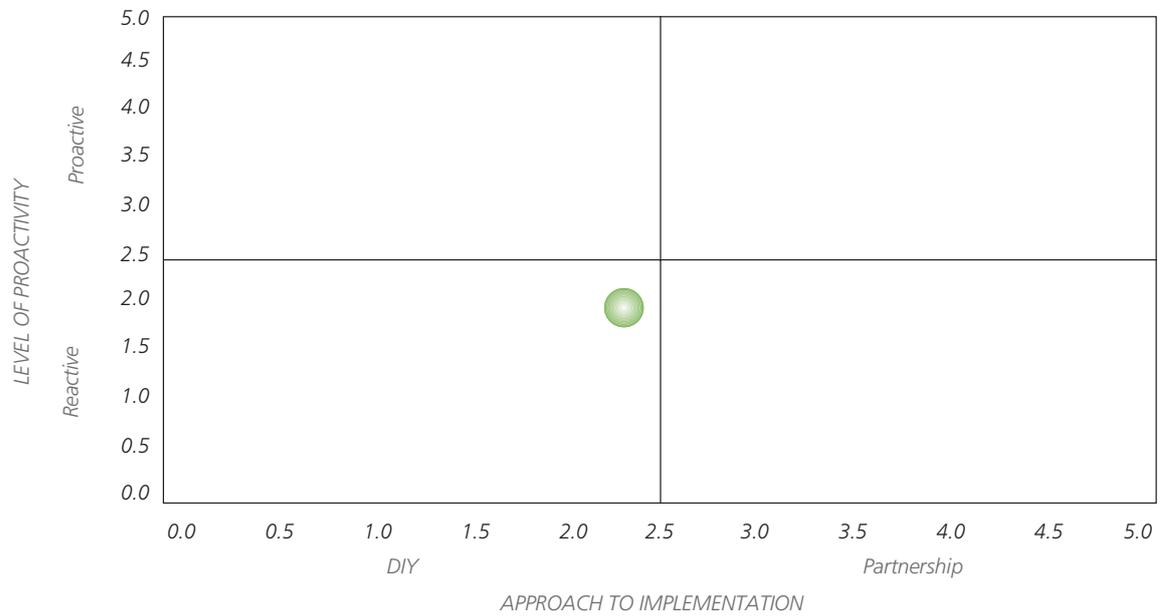
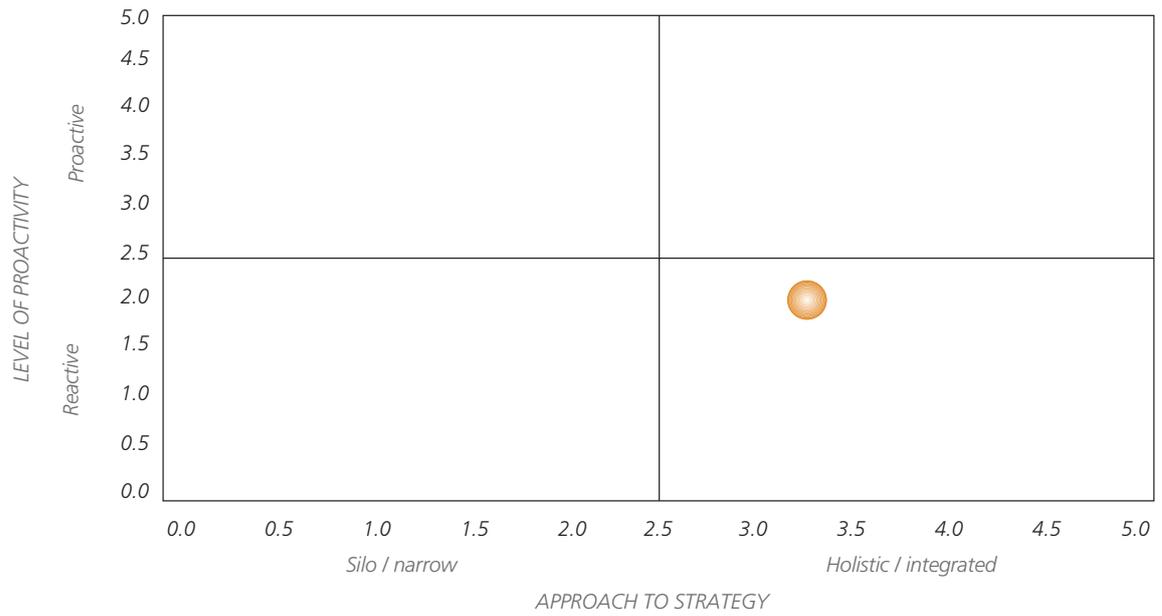
Once again, when the total respondent sample is aggregated, the result is a picture that tends to the average. However, we have very interesting findings on an industry basis, especially when we plot individual companies against each other and their industry norm.

These tables enable an at-a-glance assessment of South Africa's supply chains stand and where their planning and supply chain reform should take them. In-depth industry studies and assessments will be published at our industry seminars. Company data benchmarked to the industry is available on request.

Figure 35. Performance Matrices for South African Companies



DATA ANALYSIS



CKING
freight
ORY
ansport
-warehousing



The 2006
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.



Survey conceptualised and initiated by:

**Barloworld
Logistics**

Corporate Head Office Johannesburg

180 Katherine Street, Barloworld Park, Sandton

Tel: +27 11 445 1600

Fax: +27 11 445 1630/1632

Email: info@barloworld-logistics.com

Website: www.barloworld-logistics.com

Research conducted by:



Tel: +27 11 463 5713

Email: survey@tnova.co.za