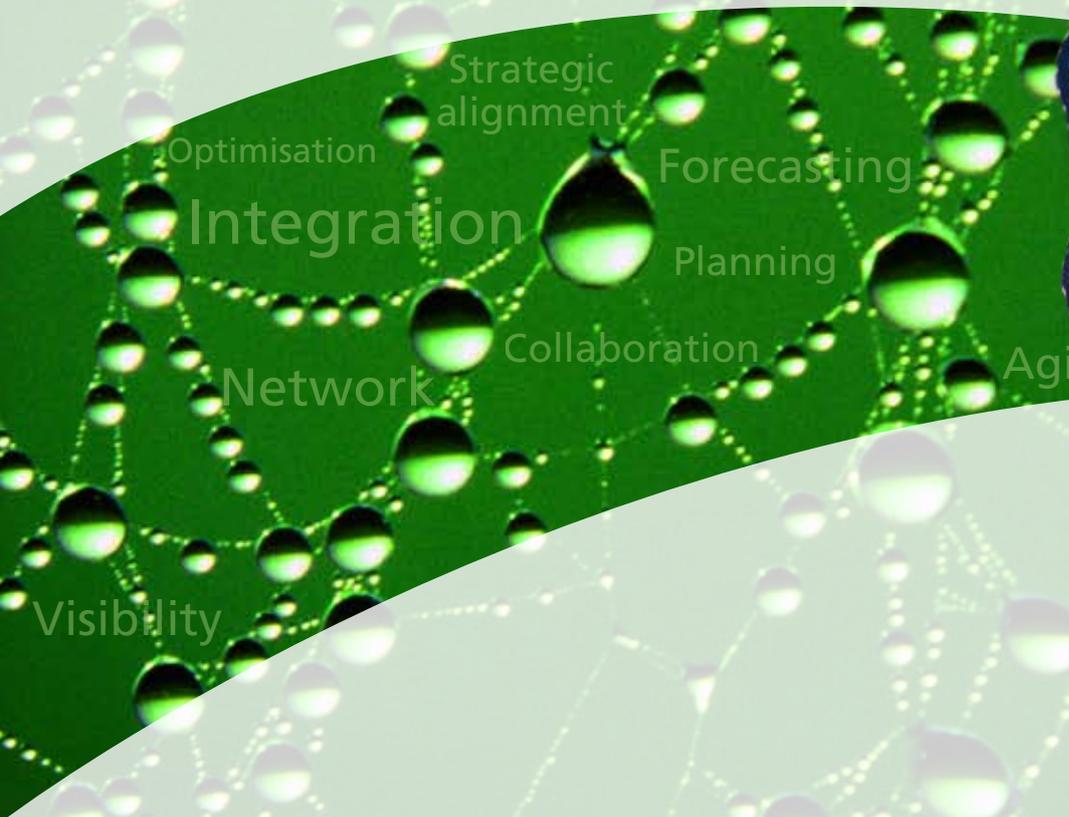


Survey conceptualised and initiated by



FMCG/Retail Report



*Global Supply Chain Dynamics –  
Measuring the Butterfly Effect  
for South Africa*

**supplychainforesight**

**2009**

## The Butterfly Effect

The **supplychainforesight** report for 2009, true to tradition for this benchmark piece of South African strategic supply chain research, is right up to the minute in offering insights into supply chain strategy and operations in the global recession and economic crisis.

Last year's research focused on those companies that were earning competitive advantage from their supply chains in a global context of economic growth and market diversity. However, the macro-economic situation in which the research takes place this year could not be more different. The global growth boom was enabled by the building out of global supply chains into an intricately intertwined network of supply and demand all over the world. Now, the global recession means that an industry decision on the other side of the world to put the brakes on growth plans could mean serious consequences for suppliers in South Africa. We've called this the Butterfly Effect – the phenomenon where a small change at one place in a complex system can have large effects elsewhere.

The 2009 **supplychainforesight** survey has been conducted by respected international research company Frost and Sullivan, and continues to be conceived and sponsored by Barloworld Logistics.

In this year's overall report we delved into the impact of the Butterfly Effect in different areas of urgent relevance for SA's supply chains, including the move to localisation, the relationship between business strategy and supply chain strategy, and the latest views of the industry on outsourcing and environmental agendas – all with the trenchant comment and insight the market has come to expect from the research.

Also true to tradition is the quality and depth of the response to the questionnaire with around 250 senior executives and supply chain managers in most of SA's major companies across key industries taking part. This maintains the focus of the research, established over the past six years, on large multinational companies whose strategies shape much of the country's economy.

Each year the research is taken from these key industries and presented back as a focused insight into the industry concerned. As part of this exercise, each key SA industry is compared to the overall view of supply chain management and senior executive viewpoints given in the main report. For the FMCG/Retail supply chain this year, different responses were measured from both the supply side and the retail side. Throughout the report, these are compared and contrasted.

Apart from this, the 2009 edition of **supplychainforesight** for the FMCG/Retail industry is structured according to many of the key themes and findings that appeared in the main report, but focuses specifically on the following ways in which South Africa's major FMCG supply chains are responding to the global economic meltdown:

- **Short-term FMCG supply chain objectives and challenges:** Tracking industry trends and strategies, including responses to the economic crisis and the focus on aligning the supply chain strategy with the business strategy. Since **supplychainforesight** has been tracking the FMCG/Retail industry since the inception of the research six years ago, we also draw some comparative conclusions about the strategic trend in the sector.



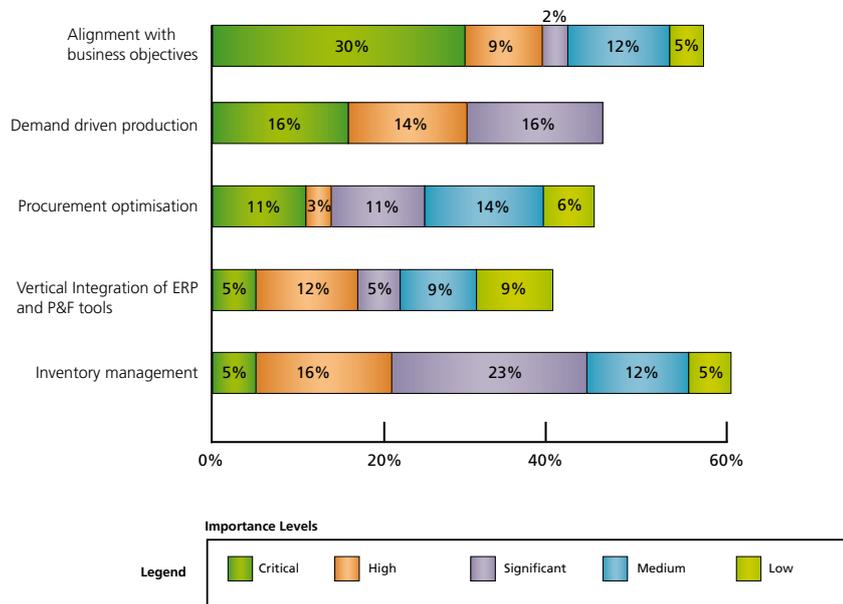
- **Outsourcing revisited:** an in-depth look at the outsourcing question in the FMCG/Retail sector reveals a characteristic maturity about the reasons for and the value of outsourcing – in accordance with the picture in the overall research this year.
- **Industry investment:** where the senior supply chain executives in FMCG are planning to invest, and why.
- **Speaking the same language – Private and Public sector co-operation:** This section addresses a perennially difficult issue for the FMCG/Retail industry, which is often dependent on complex physical distribution networks – the challenges presented to the private sector by the public sector’s supply chain and logistics initiatives, especially the physical logistics infrastructure of the country.
- **The Real Green issues:** An in-depth look at the levels of awareness and business thinking in SA around sustainable environmentally-friendly business practices reveals that South Africa Inc has a long way to go on the issue. This is, surprisingly, especially true for the FMCG/Retail sector, which, despite indirectly or directly servicing the consumer market, is fairly non-committal about the value of investment in environmental sustainability.

### FMCG Objectives and Challenges

In this section we present the trend-tracking section of the survey, which takes place every year and provides our findings with some context – how senior executives and supply chain managers in the sector view their supply chain objectives and challenges for the coming year.

The short term (1-2 years) objectives of the FMCG sector have become realigned to the restrictive market conditions in a very interesting way. A graphic depiction of these objectives can be seen here.

**Fig 1: Key Short-term Objectives of FMCG Sector**



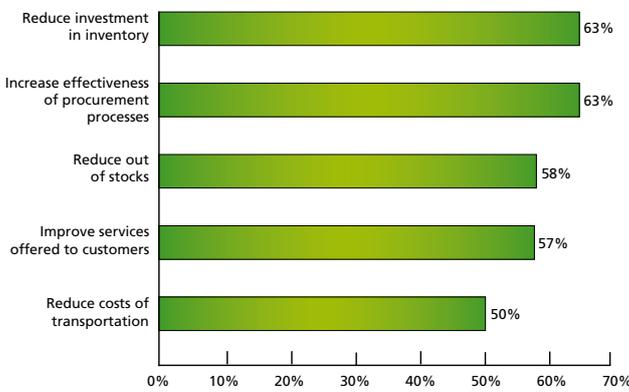


As can be seen, the top 5 leading short term objectives of the FMCG industry sector, in order of first-rank importance, are:

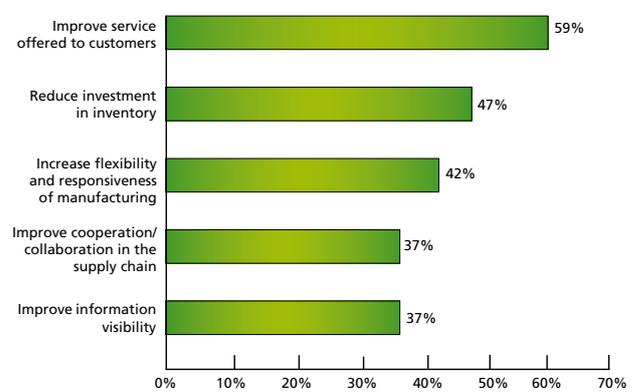
- Aligning the supply chain with business strategy
- Demand-driven production
- Procurement optimisation
- Inventory management
- Vertical integration of ERP and Planning & Forecasting (P&F) tools.

Over the last five years of the **supplychainforesight** study, some of these same objectives, crucial cornerstones for effective supply chains in the sector, have appeared time and time again.

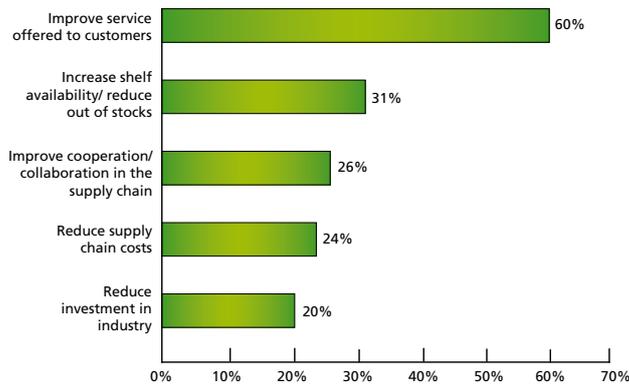
**Fig 2A : FMCG Objectives 2004**



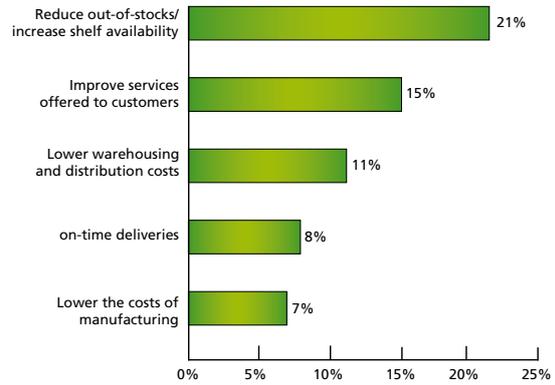
**Fig 2B: FMCG Objectives 2005**



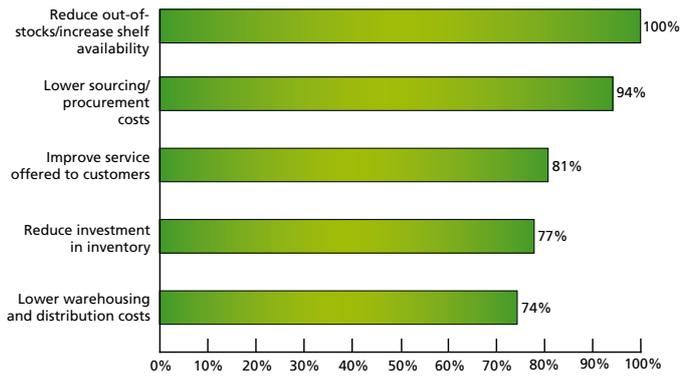
**Fig 2C: FMCG Objectives 2006**



**Fig 2D: FMCG Objectives 2007**



**Fig 2E: FMCG Objectives 2008**

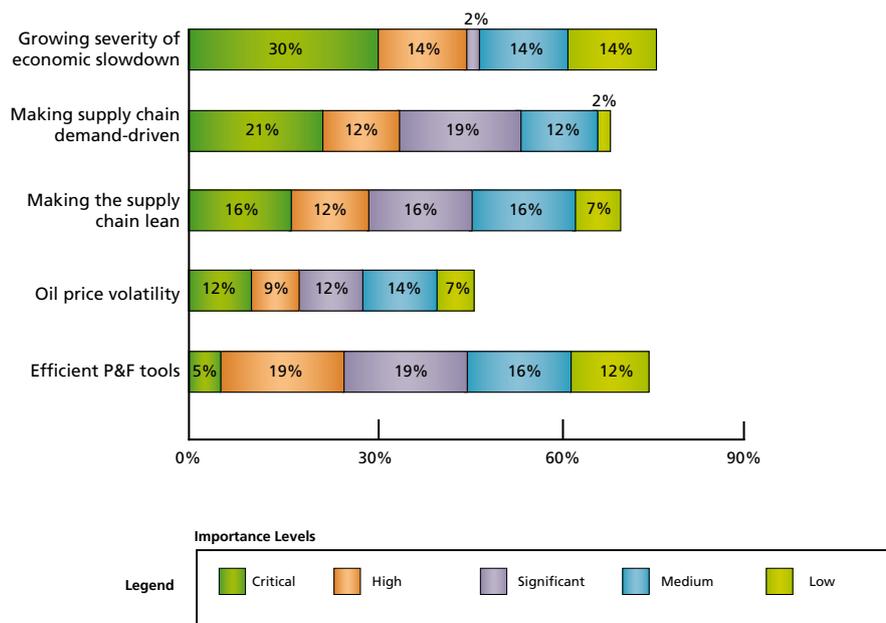


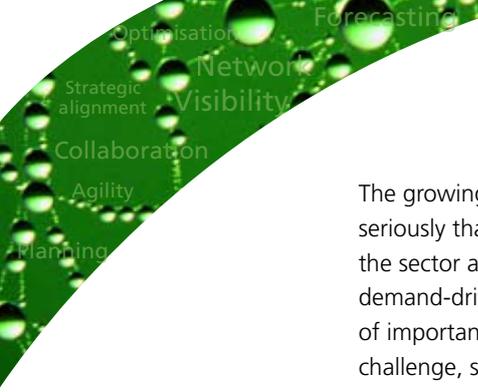
In almost every instance, the FMCG focus in previous years has been on supplying the right kind of stock at the right service levels to the retail trade – service delivery has been paramount, as has the focus on improving collaboration with their downstream retail customers.

For the first time since the survey began six years ago, the FMCG sector shows a major shift in their strategic thinking. The top-ranked objective of strategic alignment was in fact ranked as important only by 9% of FMCG respondents last year, as opposed to the 46% of the retail response who rated it as significant. Now, almost a third of the respondents rate it as their first priority, with the traditional areas of inventory management (even though this remains the most widely-ranked factor) and planning and forecasting slipping down the rankings. The fact that demand-driven production and procurement optimisation have moved up in importance as objectives points to a more collaborative attitude with retailers, and a more holistic approach to cost containment and supply chain planning.

As far as challenges in the FMCG sector are concerned, the picture is somewhat more practical and tactically oriented.

**Fig 3: What Challenges are Shaping the Strategies of FMCG?**

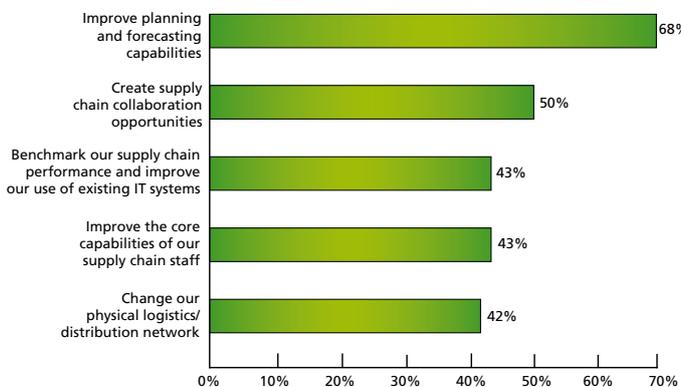




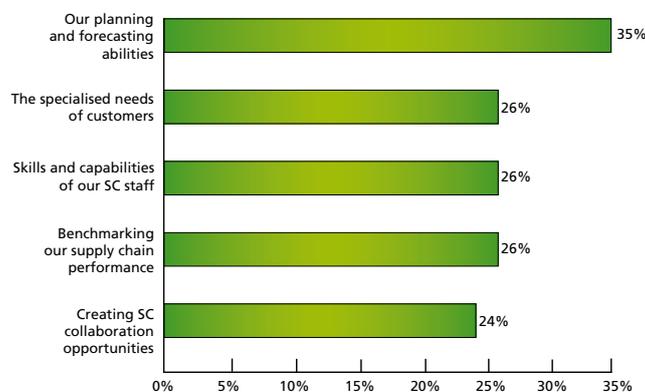
The growing severity of the economic slowdown is first on the agenda, though it is regarded slightly less seriously than by the general sample – perhaps because the true extent of the slowdown was yet to hit the sector at the time the data was collected – followed by the ongoing struggle to make the supply chain demand-driven, and lean. These factors, demand-led and lean supply chains, appear in reverse order of importance in the Retail picture. Finally, the oil price volatility for the FMCG sector also features as a challenge, since it is dependent on fuel-heavy manufacturing and transport operations.

The differences between this year's picture and previous years' research are again instructive. Without fail the major challenges in the past were related to planning and forecasting accuracy, closely followed by skills shortages and the means to collaborate effectively.

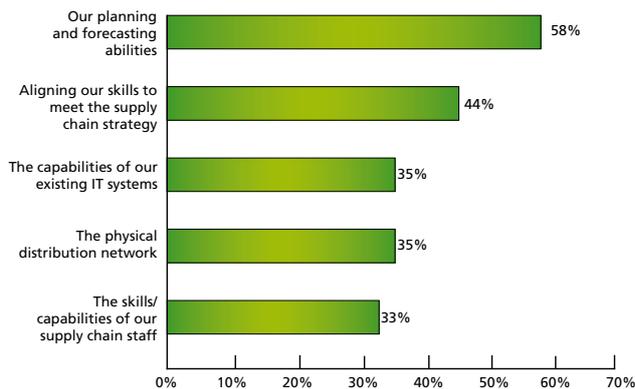
**Fig 4A: FMCG Challenges 2004**



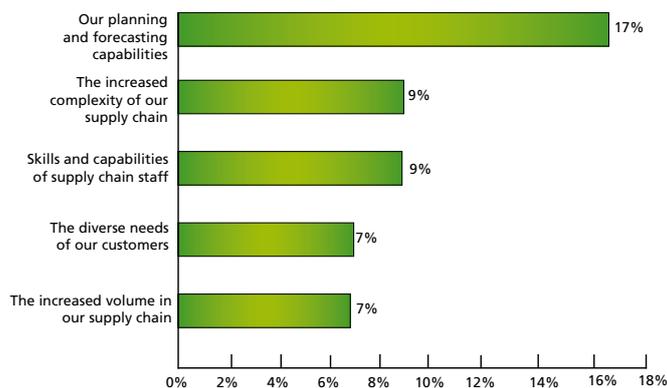
**Fig 4B: FMCG Challenges 2006**



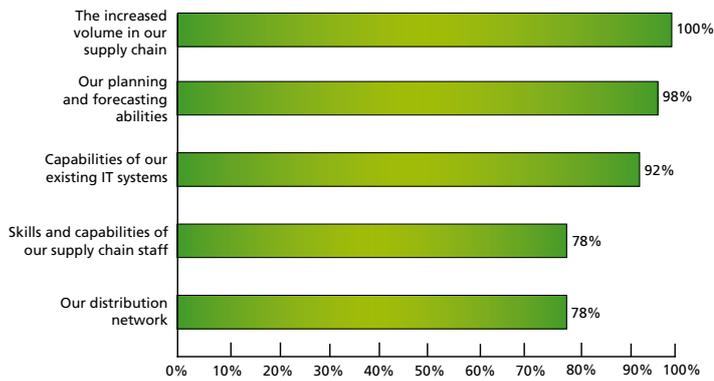
**Fig 4C: FMCG Challenges 2005**



**Fig 4D: FMCG Challenges 2007**



**Fig 4E: FMCG Challenges 2008**

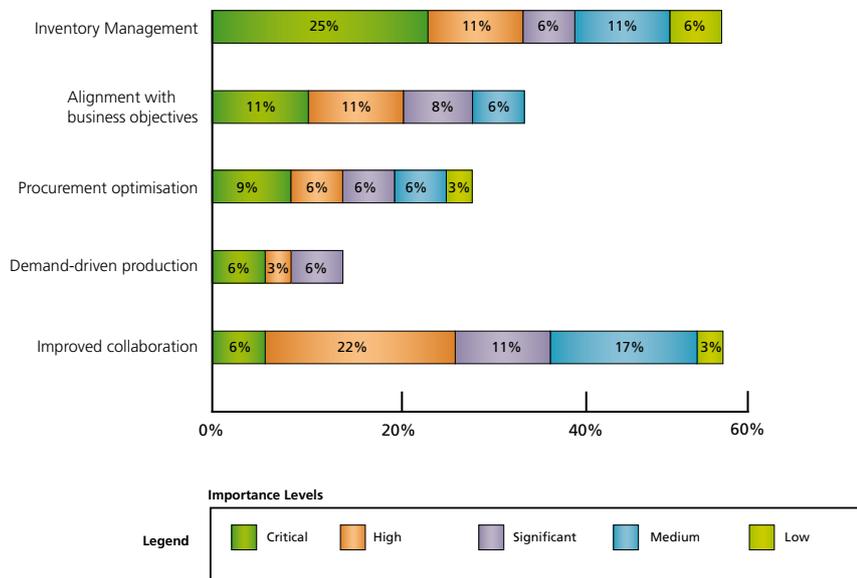


We might conclude from the shift in the challenges picture that the FMCG industry has found a more focused and strategic means of working with the retail sector to move to a demand-driven supply chain as a means to address planning and forecasting accuracy. Outsourcing of supply chain functions may also be assisting in addressing the skills shortages that previously presented a consistent challenge in the sector.

**Retail Objectives and Challenges**

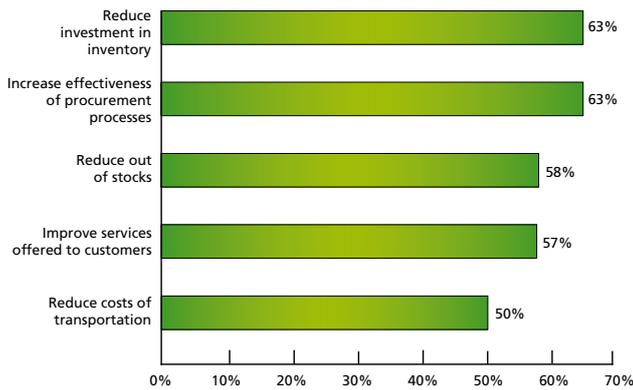
For the retail side, a more traditional picture for industry short-term objectives is seen. Inventory management remains the number one priority, with strategic alignment a distant second, and far less of a priority than the FMCG sector. With procurement optimisation appearing in third place, it's clear that the business focus remains on stock availability and cost containment.

**Fig 5: Key Short-term Objectives of the Retail Sector 2009**

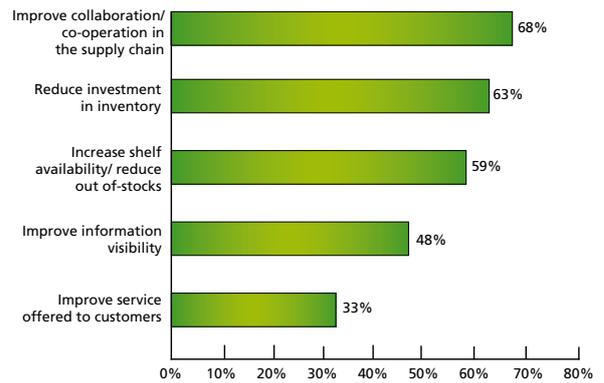


While the picture in previous years focused on planning and forecasting and collaboration opportunities, the current focus on inventory management and procurement optimisation might be seen as progress on the collaboration front with the FMCG sector, even if the optimisation of procurement may represent a rationalisation of the supplier base.

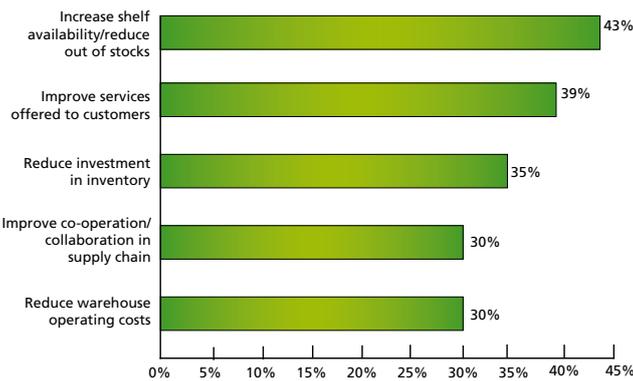
**Fig 6A: Retail Objectives 2004**



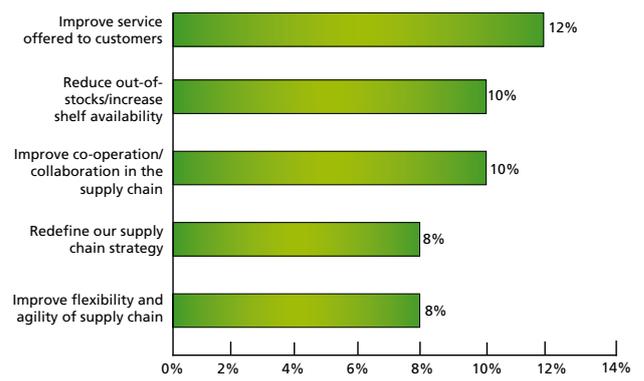
**Fig 6B: Retail Objectives 2005**



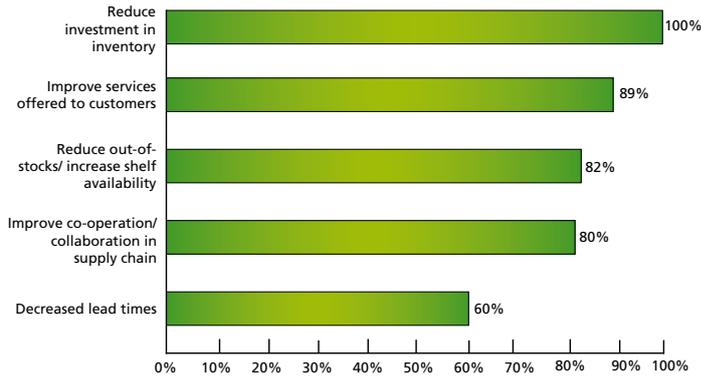
**Fig 6C: Retail Objectives 2006**



**Fig 6D: Retail Objectives 2007**

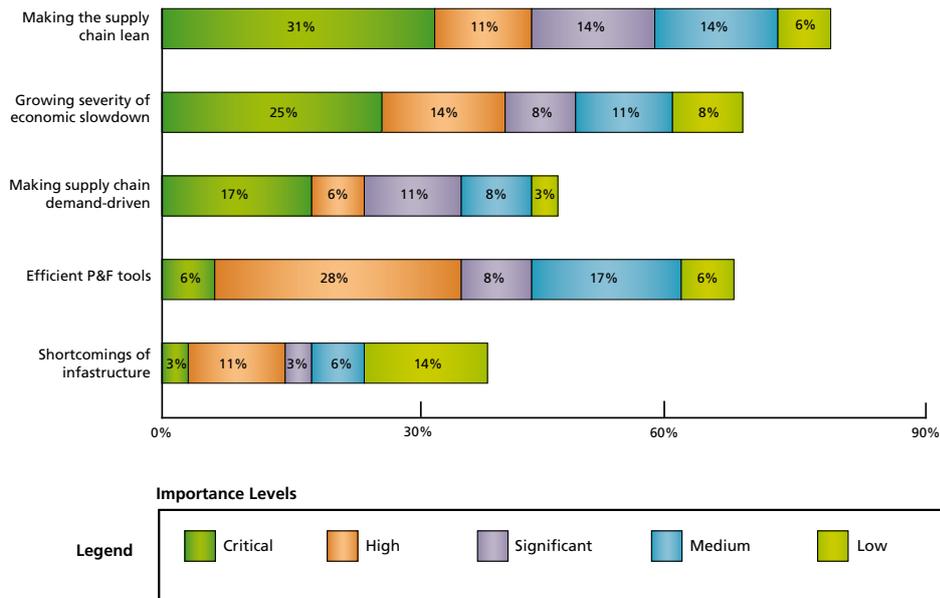


**Fig 6E: Retail Objectives 2008**



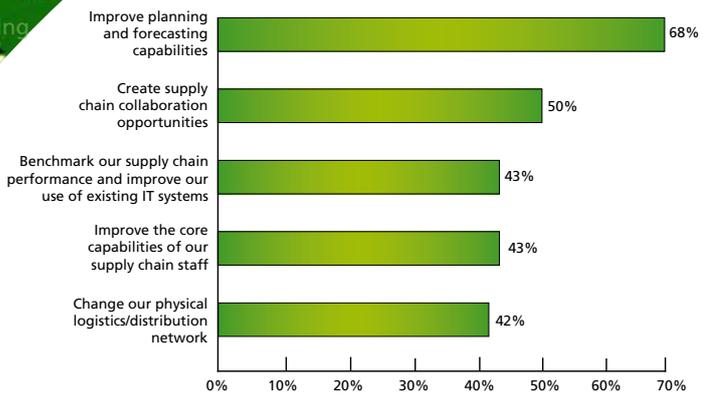
As far as challenges are concerned, the severity of the slowdown is indicated, but is ranked highly for a relatively low 25% of the sample. A lean supply chain, given the industry is all about high volumes and low margins, remains the first priority.

**Fig 7: What Challenges are Shaping the Strategies of the Retail Sector 2009**

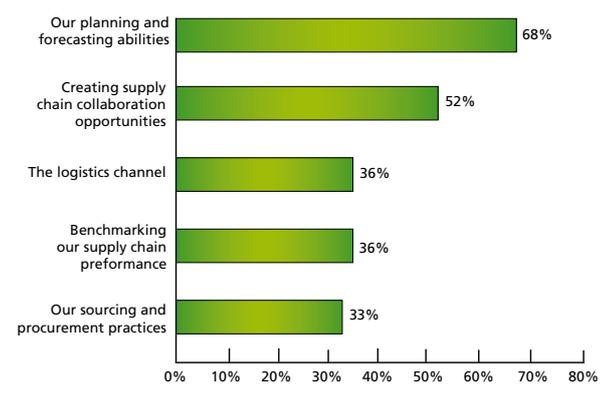


As with the FMCG sector, this focus on lean supply chain represents a strategic shift from previous years, where the chief challenges came from achieving collaboration with suppliers and, as a result, implementing more effective planning and forecasting.

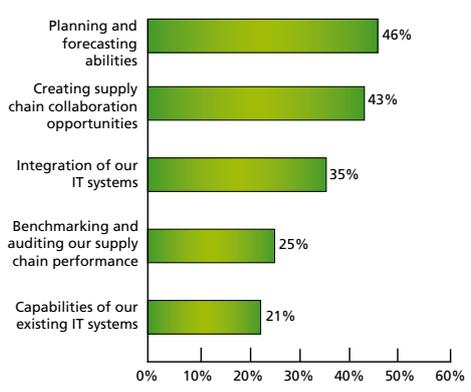
**Fig 8A: Retail Challenges 2004**



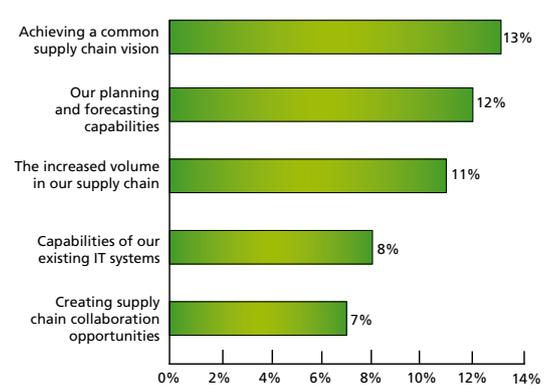
**Fig 8B: Retail Challenges 2005**



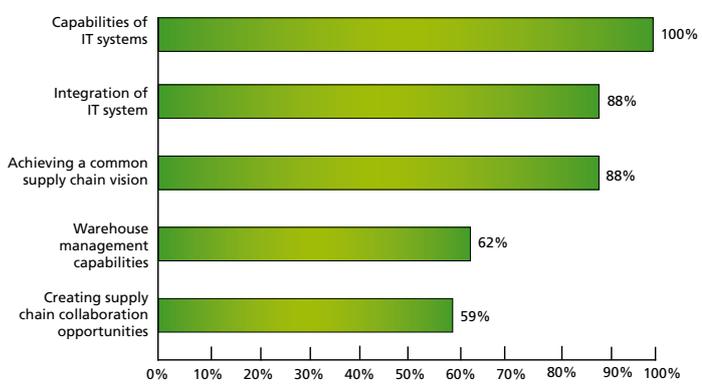
**Fig 8C: Retail Challenges 2006**



**Fig 8D: Retail Challenges 2007**



**Fig 8E: Retail Challenges 2008**



Overall, the objectives and challenges of SA's FMCG and Retail sectors are less focused than most of the sample on the economic slowdown, although this remains an urgent issue. This may be because the consumer impact and falling demand had not yet properly filtered through to the market at the time of the study being done. More pertinently, the objectives and challenges of both sides of the supply chain seem much more aligned with each other than in previous years, which seems to indicate a more effective collaborative approach to planning and inventory management in particular.

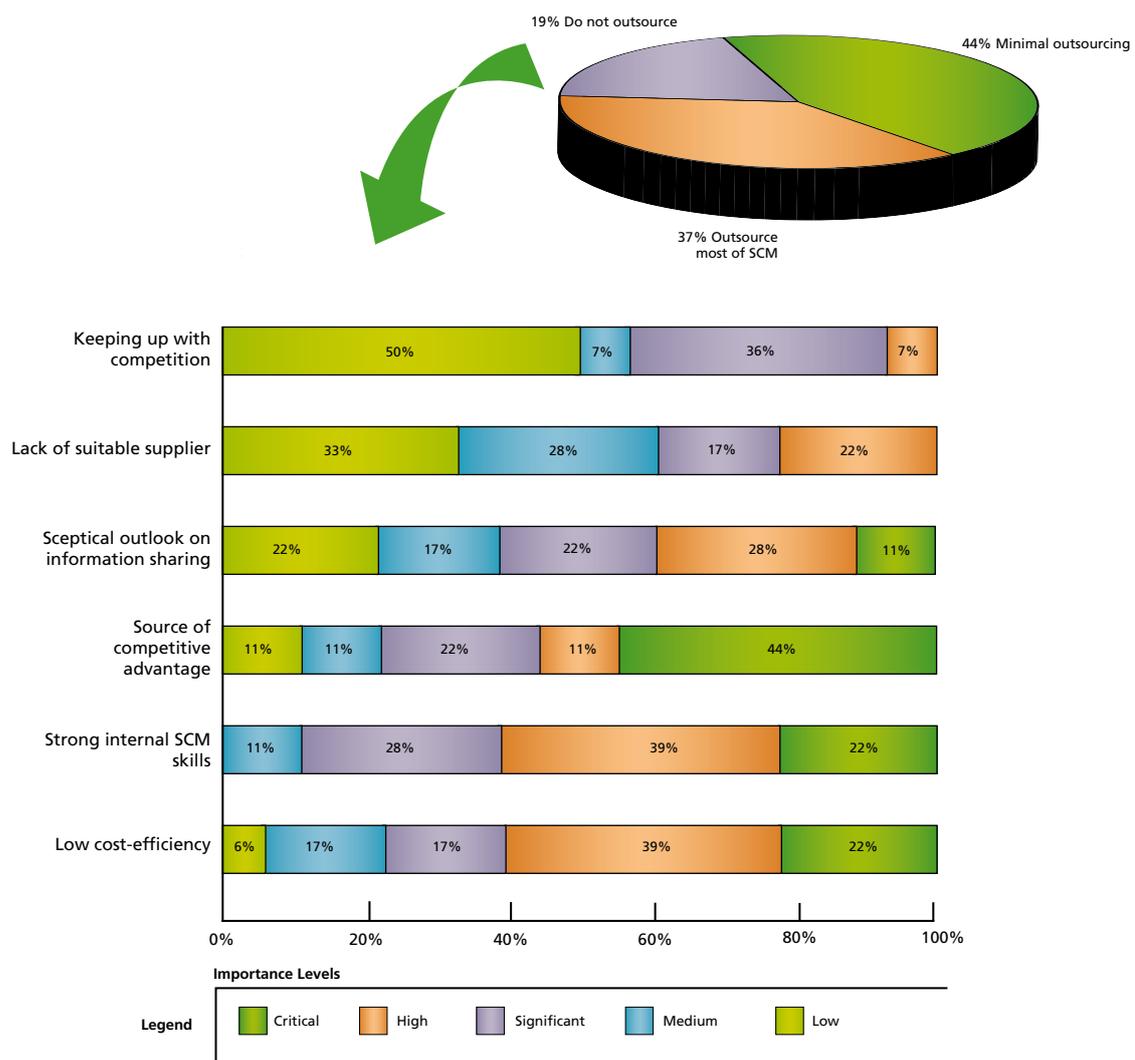
### Outsourcing Revisited

One noteworthy aspect of last year's overall national research was the growing realisation in large SA companies that the lack of available skills to provide resources to service the growth and diversity in supply chains was harming productivity and profitability. Once more, the most successful companies in the 2008 study were those who were early adopters of 'smart outsourcing', that is, working with supply chain partners who could provide more sophisticated skills and resource for the management of complex global supply chain operations.

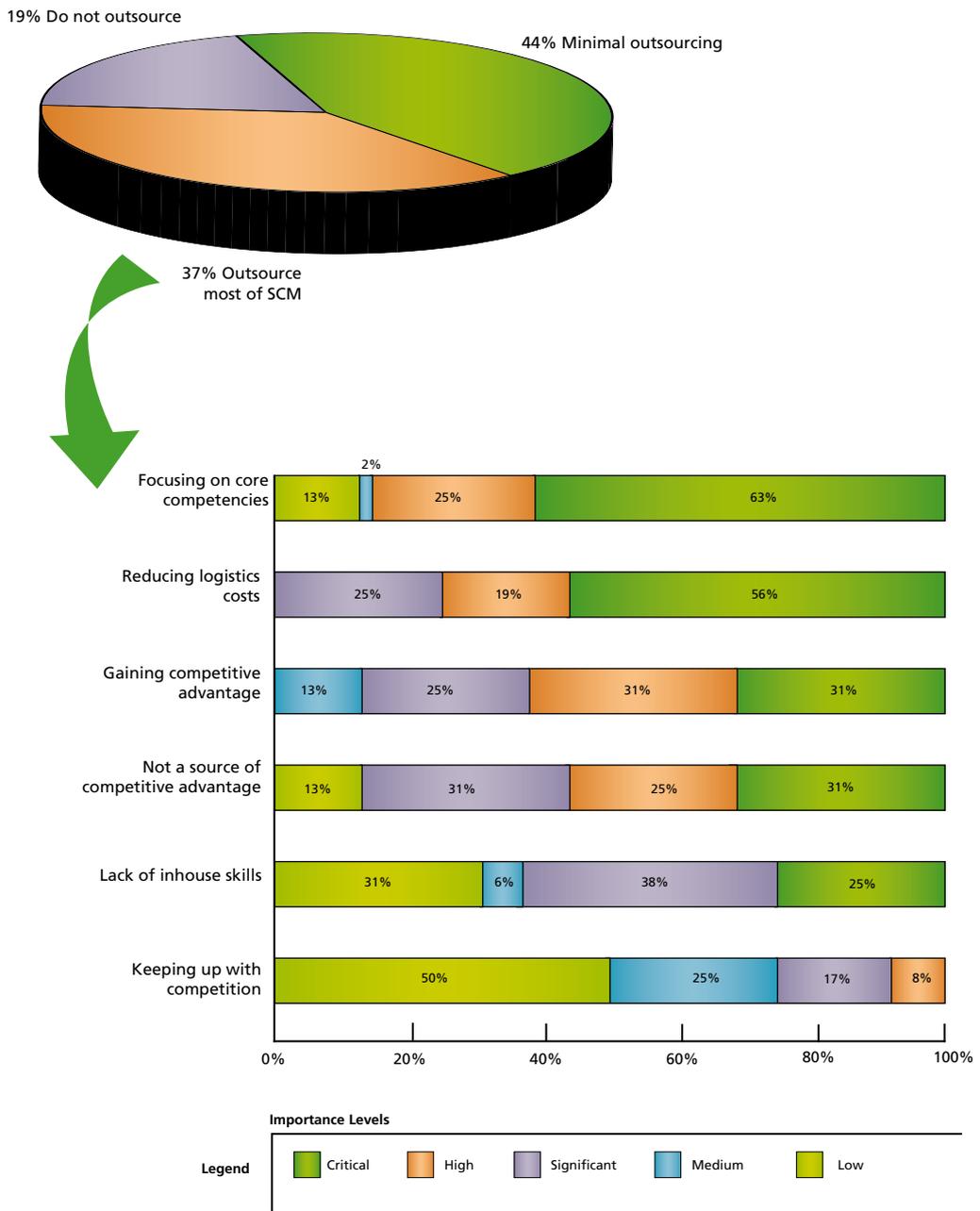
### FMCG views on outsourcing

In the FMCG sector, the pattern follows that of the general research sample – however, with a significantly higher proportion giving as their reason for outsourcing most of their supply chains that they wish to focus on core competencies (83% versus 57% in the general sample), and also a higher proportion giving cost reduction as a reason (63% versus 39% in the general sample).

Fig 9A: FMCG Outsourcing Revisited



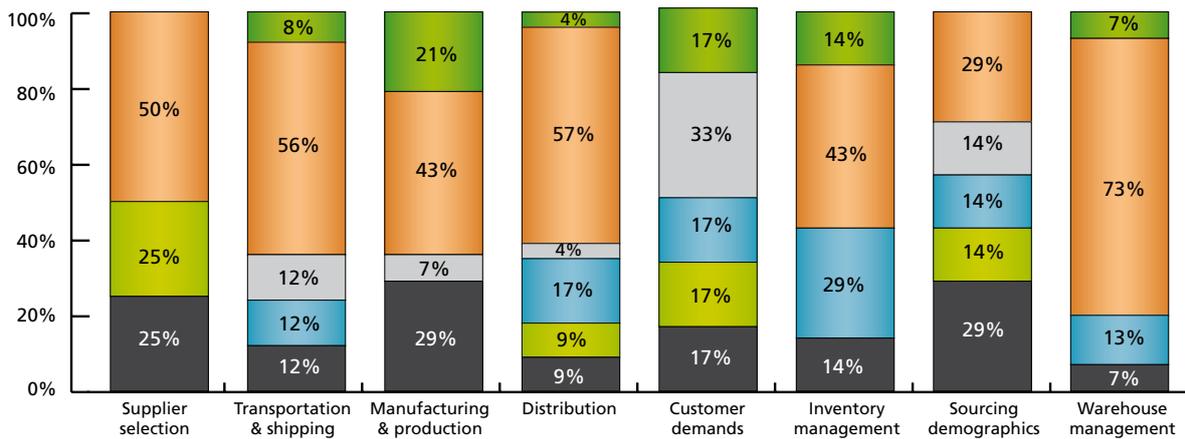
**Fig 9B: FMCG Outsourcing Revisited**



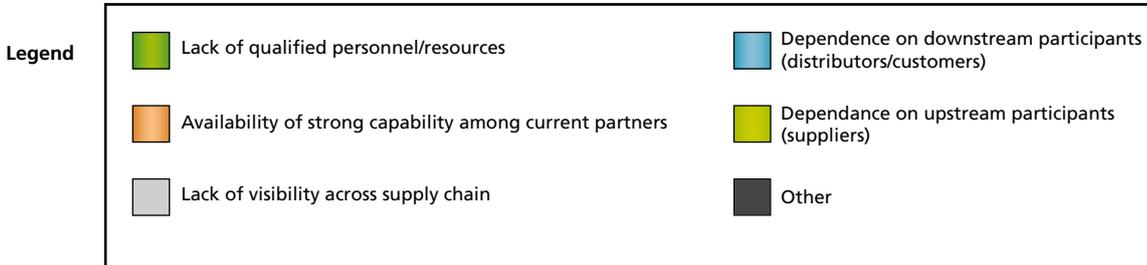
Also in common with the overall sample, areas which are kept in-house and not outsourced relate to customer demands and inventory management, the two key areas in which the sector relates directly to their retail customers. Warehousing is notable for the extent of its outsourcing, understandable in the context of the way in which retail demand controls the flow of inventory.



**Fig 10: FMCG Main Reasons for Outsourcing**



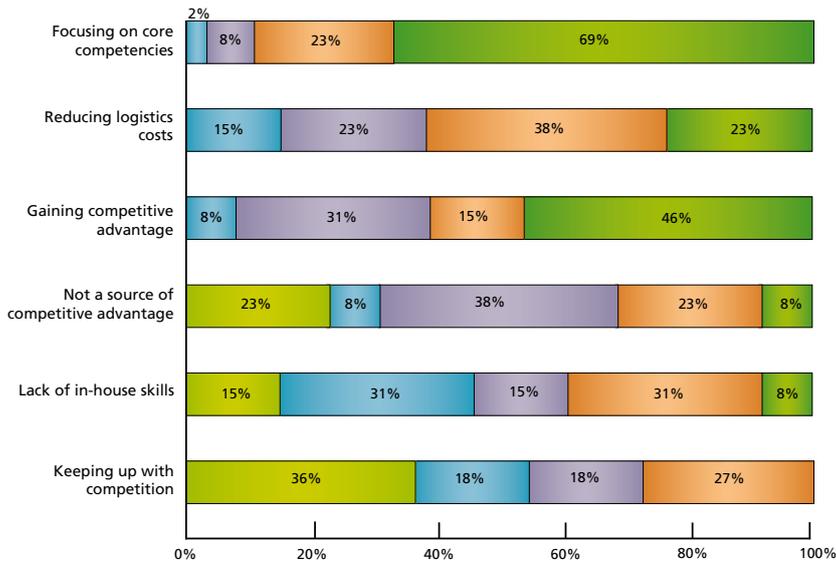
**Importance Levels**



**Retail outsourcing revisited**

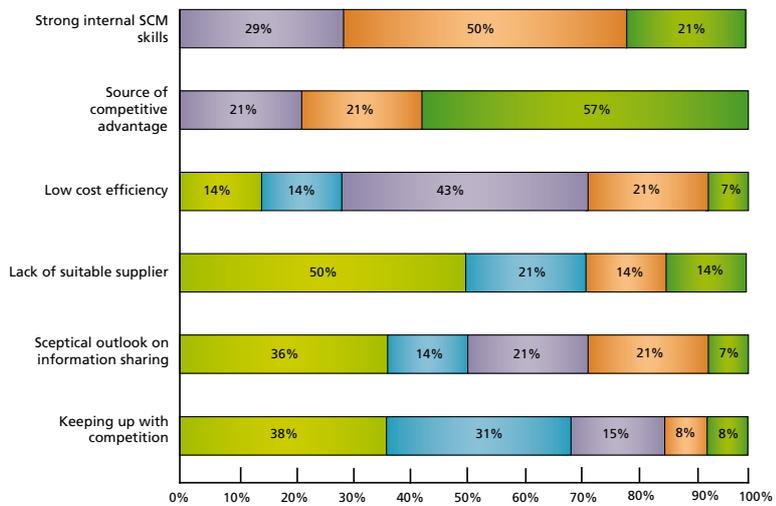
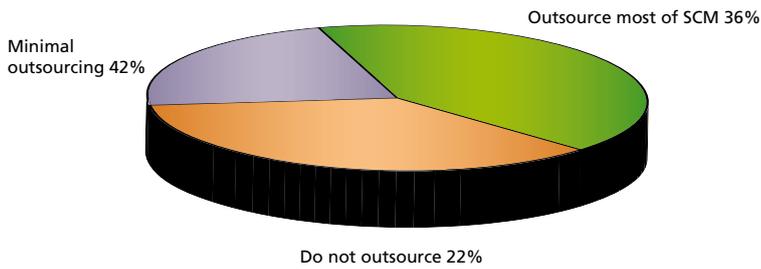
For the retail sector the picture is also the same as the general report, but the differences in emphasis are instructive. For those who outsource most of their supply chain functions, the overwhelming reason is to focus on core competencies. Also notable is the much lesser degree to which cost reduction is given as a key reason for outsourcing (23% versus 39% in the general sample), and how much more of the retail response see outsourcing offering competitive advantage (48% versus 35% in the general sample).

**Fig 11: Retail Outsourcing Revisited**



**Importance Levels**

Legend: Critical (Green), High (Orange), Significant (Purple), Medium (Blue), Low (Yellow)



**Importance Levels**

Legend: Critical (Green), High (Orange), Significant (Purple), Medium (Blue), Low (Yellow)

What this may indicate, again, is the extent to which collaboration with manufacturers and distributors has improved – and the extent to which, in the retail trade, the control of inventory itself is a core competency.

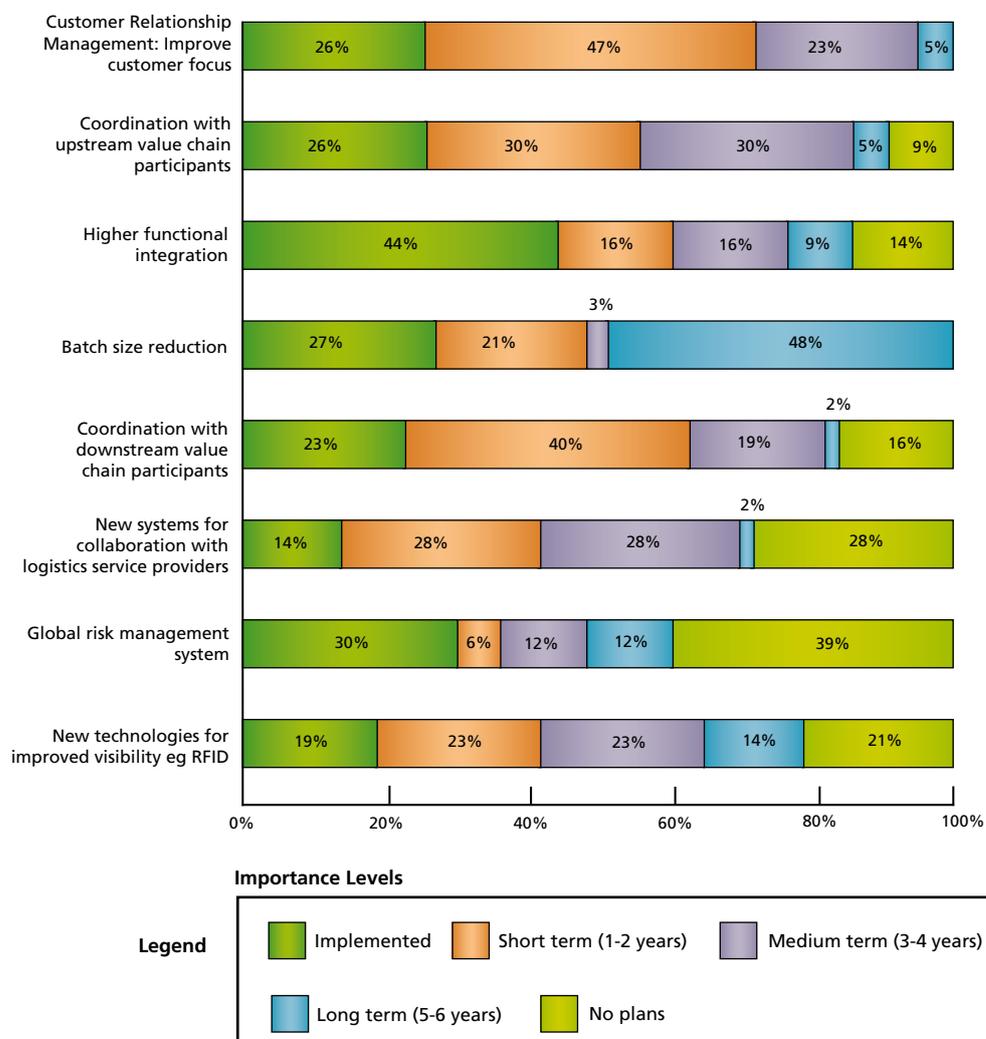
## Industry Investment

The picture on current and short-term sectoral investment in fact bears out the contention that the FMCG and retail components of the industry are collaborating more productively than seemed the case in previous years.

## FMCG

In the FMCG sector, the short-term investment focus is on customer relationship management, alongside better co-ordination both upstream and downstream in the value chain. This indicates both a focus on cost containment upstream with component and material suppliers or manufacturers, as well as a wish to offer better value to retailers downstream in a hypercompetitive value chain.

**Fig 12A: FMCG Investment Plans**

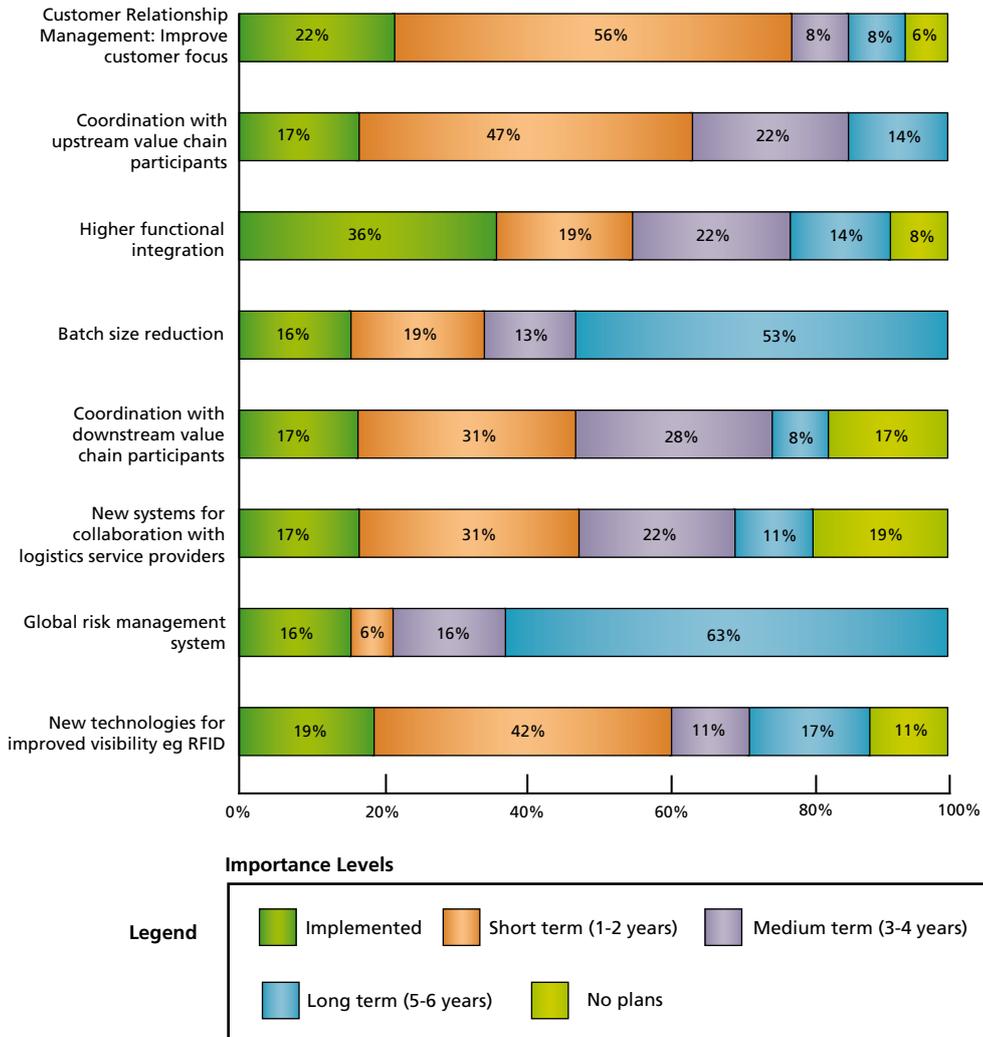




## Retail

For the retail sector the picture is focused on upstream value chain participants, the FMCG sector, as well as on the consumers, with plans to invest in customer relationship in the short term leading to 78% of the sample. With the crucial focus on inventory management in the sector, much focus is also placed on investment in improved supply chain visibility, with 61% of the sample planning investment in new technologies in this area.

**Fig 12B: Retail Investment Plans**

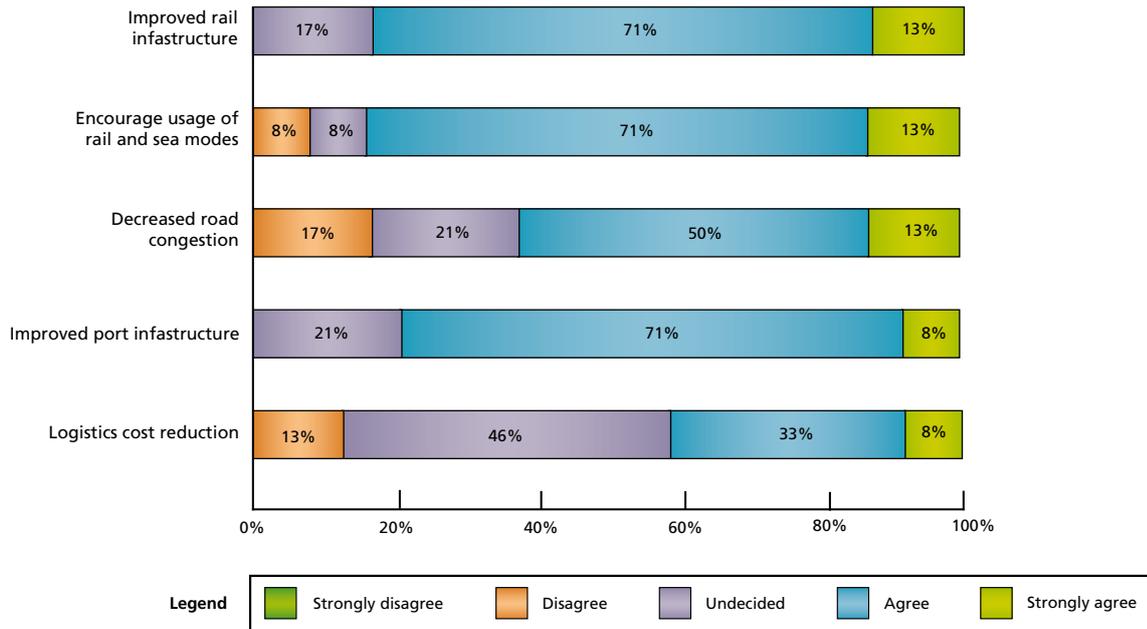


## Speaking the same language: Public and Private Sector Co-operation

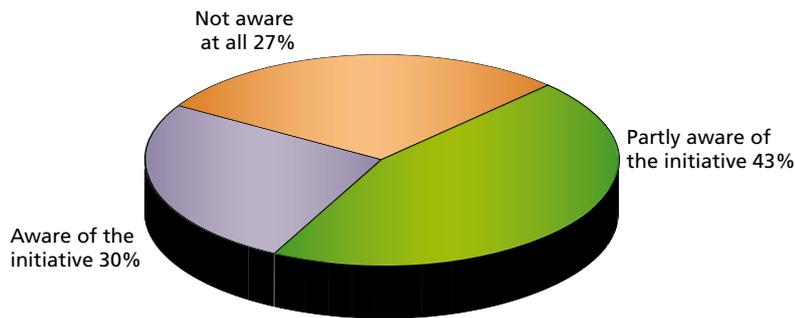
### FMCG

In the FMCG sector there was a surprisingly high degree of lack of awareness of Transnet's investments in SA logistics infrastructure, with 27% of the sample saying they were unaware. This may indicate the extent to which the sector deals with transportation and import/export issues directly, and the extent to which their value chain is regionally or domestically located. In common with the general sample, however, there is agreement among those who are aware that investment and private sector involvement in logistics planning and execution will improve matters.

**Fig 13A: FMCG Awareness Transnet Initiatives**



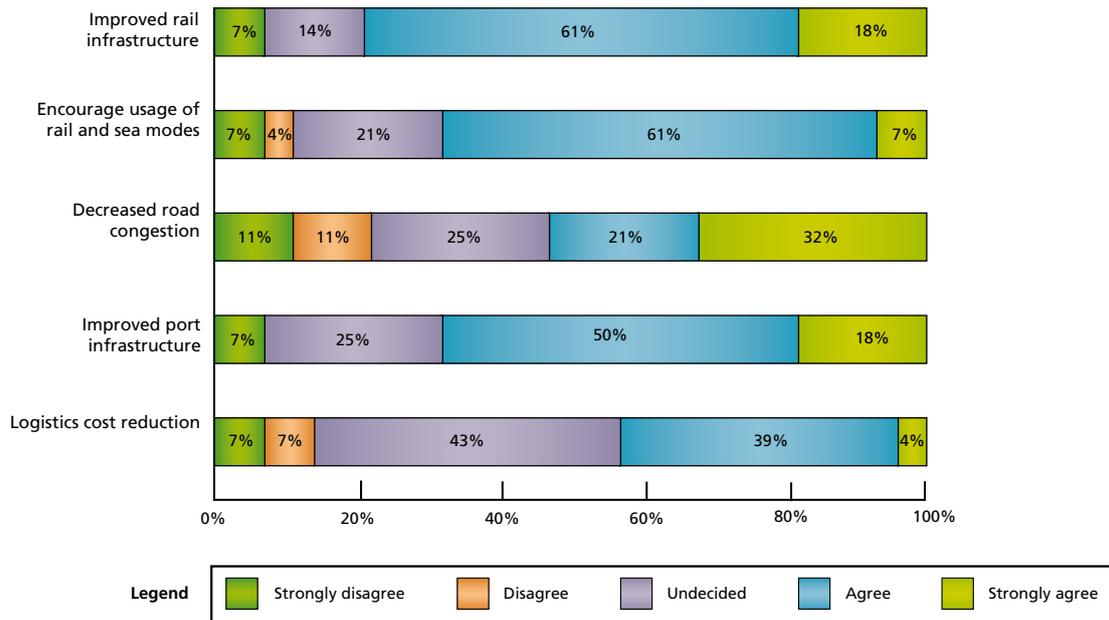
**Fig 13B: FMCG Awareness Transnet Initiatives**



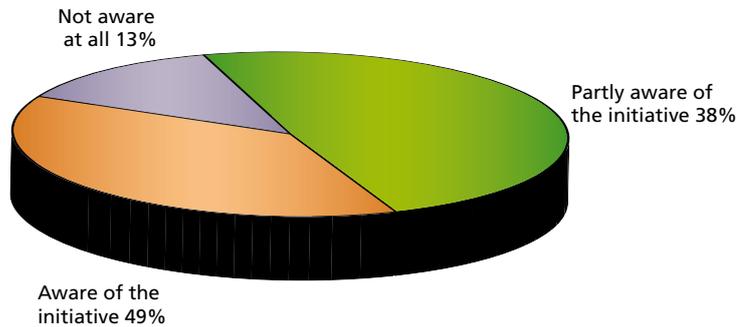
**Retail**

For the retail sector, the lack of awareness of the Transnet investment plans is less, and more in line with the general sample. Interestingly, there is less confidence here that the investments will have an impact on improved rail and port traffic, again perhaps because there is a more domestic focus for the industry. Where there is a difference is in the much greater conviction, with 32% of the sample strongly agreeing (compared to 14% for the general sample) that the investment will decrease road congestion. This is a particularly troublesome area for the management of inventory for retailers, since it affects deliveries both on the roads and as congestion at delivery bays and distribution centres.

**Fig 14A: Retail Awareness Transnet Initiatives**



**Fig 14B: Retail Awareness Transnet Initiatives**



**The Real Green Issues: The Environment and Economic Sustainability**

The debate in the SA market, such as there has been, around environmentally-friendly business practices has largely been confined to the Corporate Social Investment (CSI) agenda. This section of this year’s research sought to drill down into the awareness and attitudes among SA supply chain practitioners and senior executives about the environment and sustainability. With the business tide moving in the direction of the Obama administration’s strong new stance on reversing the impact of global trade on the environment, the time is right to start a strategic business dialogue about doing business in a more environmentally friendly SA.

Of course, the current priorities of cost reduction and business survival militate strongly against moving green business practices up the agenda, but this section of the study uncovered some interesting views.

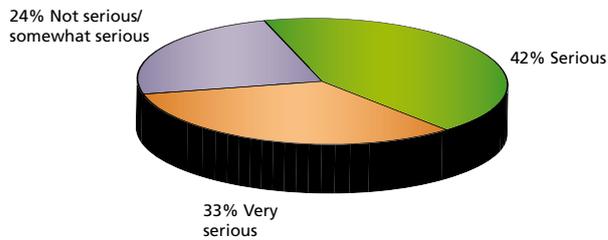
Disappointingly, the FMCG Retail sector as a whole is not seeing environmental sustainability as a serious business issue.

## FMCG

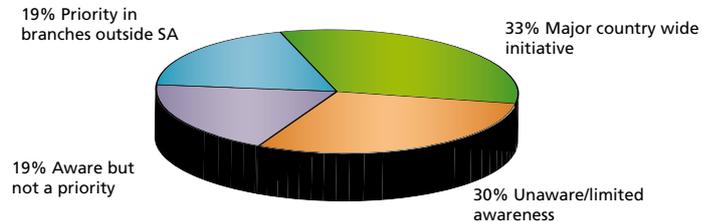
For the FMCG sub-group, lack of awareness, or lack of prioritisation for the issue, extends to almost half the sample. Similarly, ROI is not expected from investment in environmentally-aware business practices, and the whole thing is seen as building brand value rather than having any concrete or even longer-term balance sheet implications. In terms of what areas of the business the FMCG sector intends to address for environmental sustainability, strengthening reverse logistics and shortening the globalised supply chain stand out. It is possible to argue that these are crucial cost containment elements in the FMCG sector anyway, and that the motivation for addressing them is cost reduction rather than environmental benefit.

**Fig 15A: FMCG Environmental Awareness**

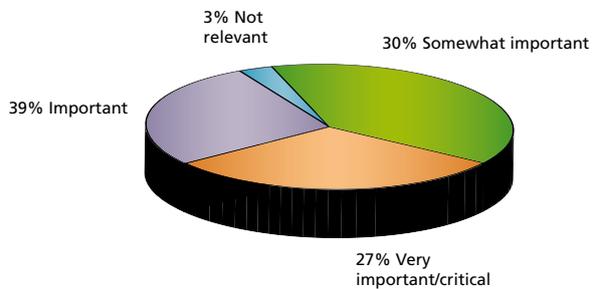
### End-user's Perceptions on the Seriousness of Climate Change



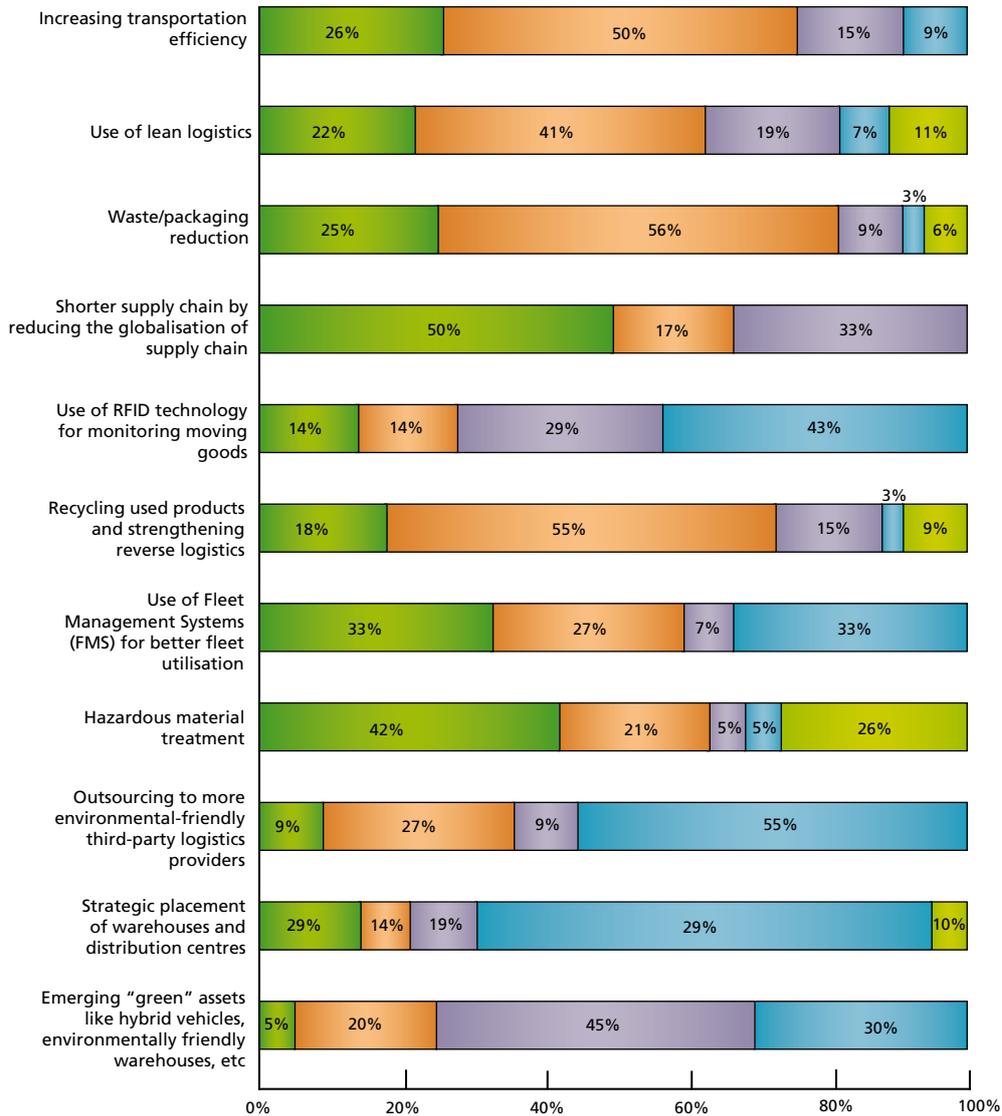
### Awareness about the Issue of "green footprint"



### Importance of an "environment-friendly" Supply Chain



**Fig 15B: FMCG Environmental Sustainability Strategies**



**Importance Levels**

**Legend**

- Implemented
- Short term (1-2 years)
- Medium term (3-4 years)
- Long term (5-6 years)
- No plans

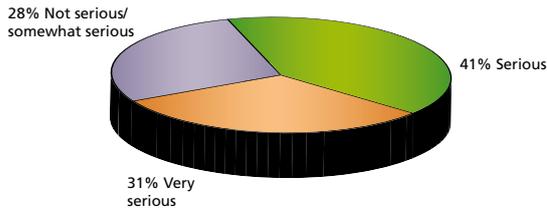
**Retail**

The same picture is, if anything, even more exaggerated in the retail sector. Here, the major areas for addressing carbon footprint are transportation efficiency and the use of lean logistics, which, again, are areas of the business listed as key strategic objectives anyway.

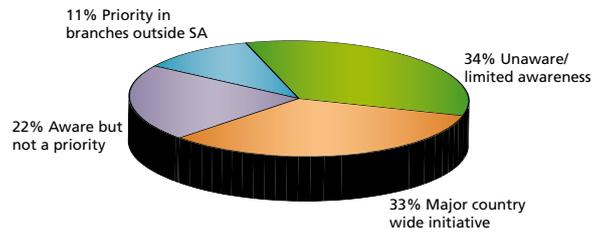


**Fig 16A: Retail Environmental Awareness**

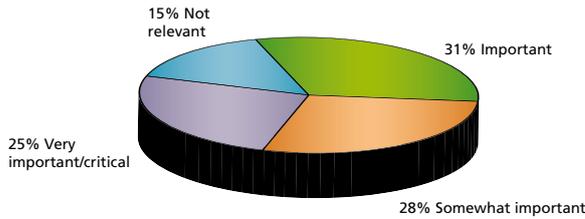
**End-user's Perceptions on the Seriousness of Climate Change**



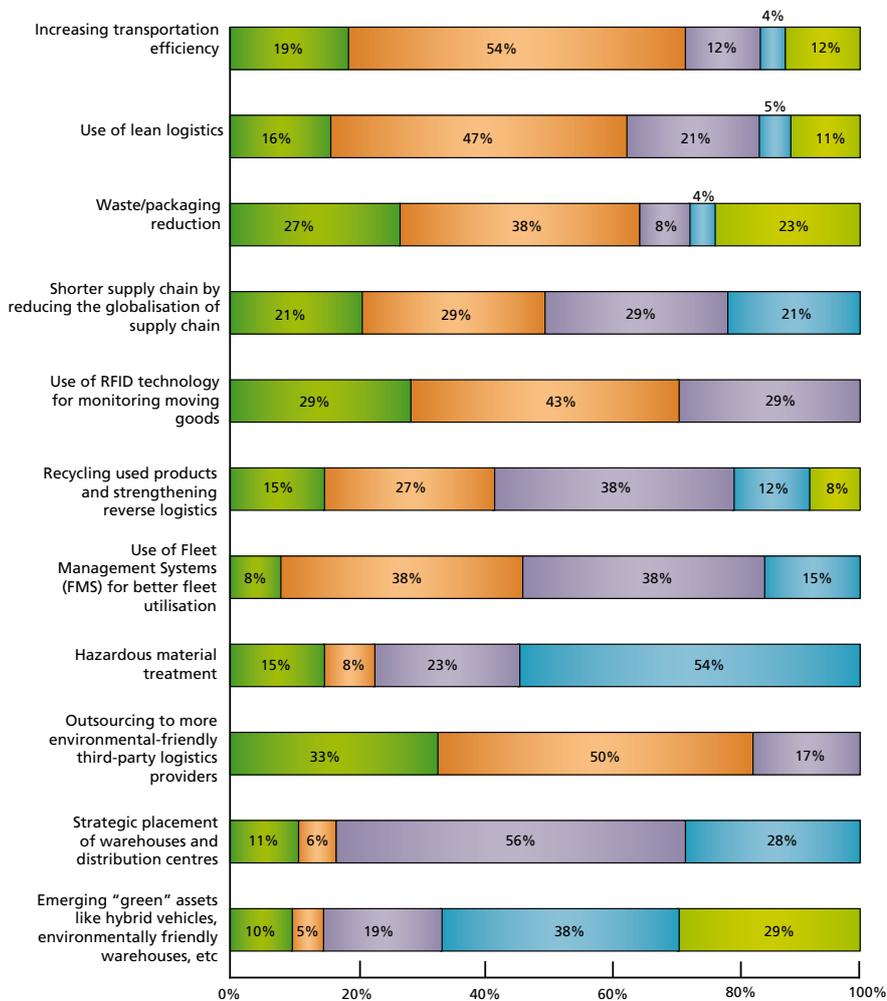
**Awareness about the Issue of "green footprint"**



**Importance of an "environment-friendly" Supply Chain**



**Fig 16B: Retail Environmental Sustainability Strategies**



**Importance Levels**

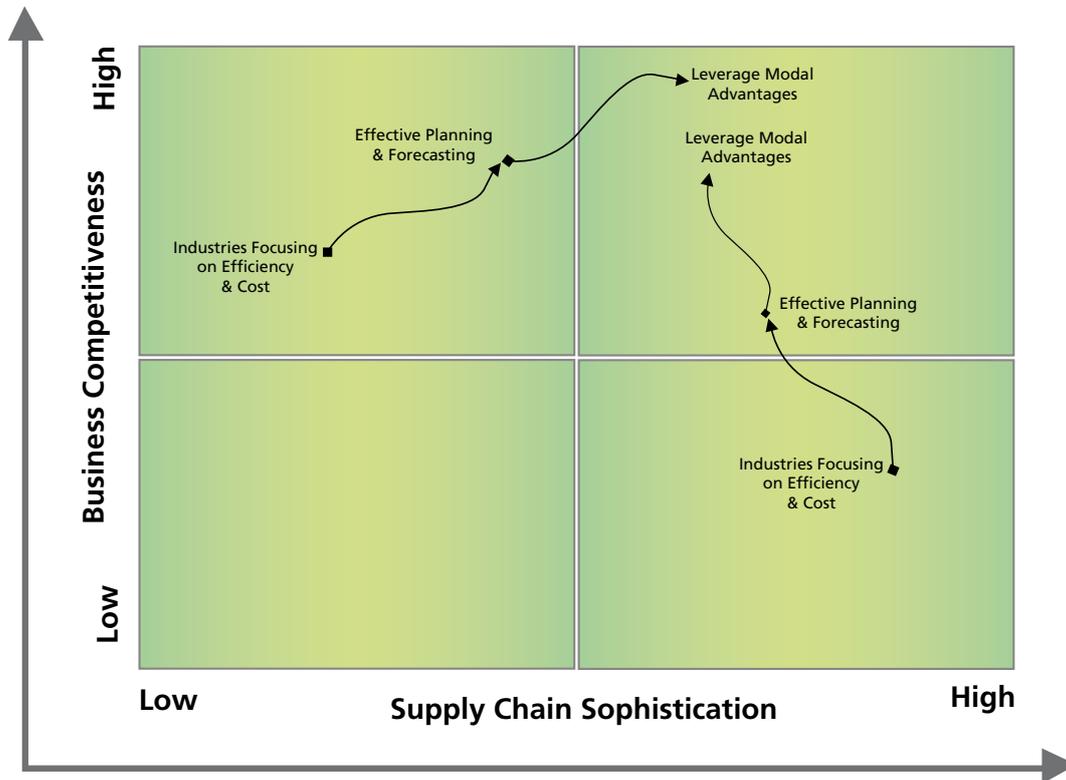




The industry's relative lack of emphasis and importance given to environmental issues in its supply chain operations is puzzling for a sector that is centrally concerned with consumers. Brand value apart, one would assume that sustainable environmentally-friendly business practices in the consumer goods sector might be a smart long-term investment.

**Conclusion – Out of Crisis, Opportunity**

**Fig 17: Supply Chain Butterfly Effect**



The FMCG and Retail sector's current strategic supply chain trajectory looks something like this. Achieving a 'responsible' supply chain balance in the upper right quadrant, between profitability and sustainability in a world where most resources are thinly stretched – is no mean feat, and currently the industry, like many others, is focused on cost containment and on efficiency in a tight economic environment. For the sector that means inventory management and demand-driven production, components of the combined supply chain that require strong and effective collaboration between suppliers and retailers. By and large the sector seems to be achieving this smart collaboration, which puts it in good stead for seeing out the recessionary conditions the market is currently experiencing.

It is far more difficult in an environment like today's, where survival is the watchword and the potential for failure is the compelling event that drives most businesses on. The world's explosion in cross border and international trade and consistent growth over the past few years has been shown to be fragile at its heart. And yet, the Butterfly Effect – say, for example, the sub-prime housing crisis in the US bringing down a global financial network intricately linked by information-based supply chains - can be combated and contextualised.

For the FMCG and Retail sectors a positive outcome of the crisis may be a more long-term view of strategic alignment between the business and its supply chains. The more collaborative attitude demonstrated this year will help in further reducing costs, and managing and optimising inventory in an even more volatile global economy.





Research conducted by  
**FROST & SULLIVAN**

Survey conceptualised and initiated by



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