

**supplychainforesight** 2008

**Building and Construction  
Report**

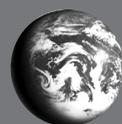
*Supply chain complexity and  
a company's ability to manage  
it, is directly correlated to  
its success in the marketplace.*

Academic Partner



Visit [www.supplychainforesight.co.za](http://www.supplychainforesight.co.za) to download the full report

Survey conceptualised and initiated by



**Barloworld  
Logistics**

## Introduction

# The supplychainforesight report

The **supplychainforesight** report for 2008 seeks to demonstrate clearly and decisively what we have been arguing for five years now: that there is a significant correlation between supply chain reform and business success on many fronts, including both growth and profitability. In this year's research we have sought the answer to the key question: *are South African companies who respond to the challenges of globalisation through strategic supply chain reform more successful than those who do not?*

### Correlating Supply Chain Reform and Business Success

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

Deloitte coined the term 'complexity masters' for the small group of companies – 7 percent of their sample group – who have overcome this complexity in their value chains by synchronising customer, product and supply-chain-related strategies and operations while leveraging strengths in collaboration, flexibility and visibility. In Deloitte's estimation these reforms helped the 'complexity masters' to generate up to 73% higher profits, as well as growth rates that were markedly better than other companies studied.

In this year's **supplychainforesight** study, we seek to present a framework for understanding the urgent challenges facing South African supply chains now – taking our lead from the Deloitte study, which did not deal with Africa at all. We look at the need to deal with the tsunami of globalisation and find competitive advantage in it, and the growth and profitability that are available to companies plotting this route successfully.

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

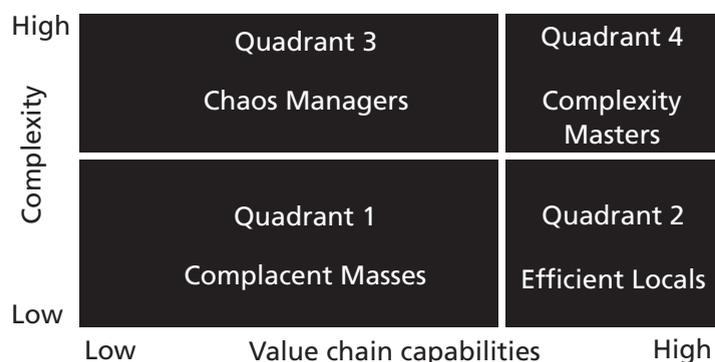
### A Groundswell of Executive Participation

One hugely encouraging factor for our research this year was the record level of participation. Over 400 senior executives in some of South Africa's largest companies responded to our questionnaire this year, almost double the participation of last year's study. Most of these responses again came from major corporations with global operations, and levels of participation by CEOs and General Managers were also at record levels – up to 29% from 18% last year. There is also a huge increase in the participation of logistics middle management, to 16%, up

from 8% last year. In the building and construction sector, however, while there is still a substantial representation of large companies, with almost 29% having over R1bn in turnover, there is also significant participation from smaller companies, with 29% of the sample under R100m, and a further 17% under R250m. This suggests that this part of the sample may be suppliers to larger construction companies, a contention borne out elsewhere in the study.

### The Capability and Complexity Question

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



## Building and construction

### Capability and Complexity in the Building and Construction Sector

#### The Complexity and Capability Question

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

We then plotted scores for complexity of the value chain against the company's ability to deal with it, and were then able to organise companies into four different quadrants.

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

move into 'quadrant four'. Finally, companies in 'quadrant three' have much complexity but relatively little capability to deal with it. Like 'quadrant one' but for different reasons, these businesses are also at risk.

The building and construction sector supports the hypothesis, but shows an anomaly compared to the general picture in our main sample this year.

Complexity	High	21% of sample 83% are more successful	3% of sample 100% are more successful
	Low	45% of sample 0% are more successful	31% of sample 56% are more successful
		Low	High
		Value chain capabilities	

On the complexity axis, we asked in which regions companies performed the business activities of sales and marketing, procurement, manufacturing and engineering; in order to gain a picture of the nature and extent of globalisation for the business, and by extension the complexity of the value chain.

On the capability axis, companies were rated in terms of their relative competitiveness on factors such as product innovation, time-to-market, manufacturing flexibility, logistics effectiveness and supply chain reliability. The business success indicator was then determined when companies were asked to rate their success relative to their competitors in areas such as profitability, revenue growth, market share growth and customer retention.

In the general **supplychainforesight** study this year, our hypothesis was proven correct – that is, that companies who have complex, usually highly globalised, supply chains and who have the capability to manage them, are far more successful than those companies who do not. These companies we placed in our 'quadrant four'.

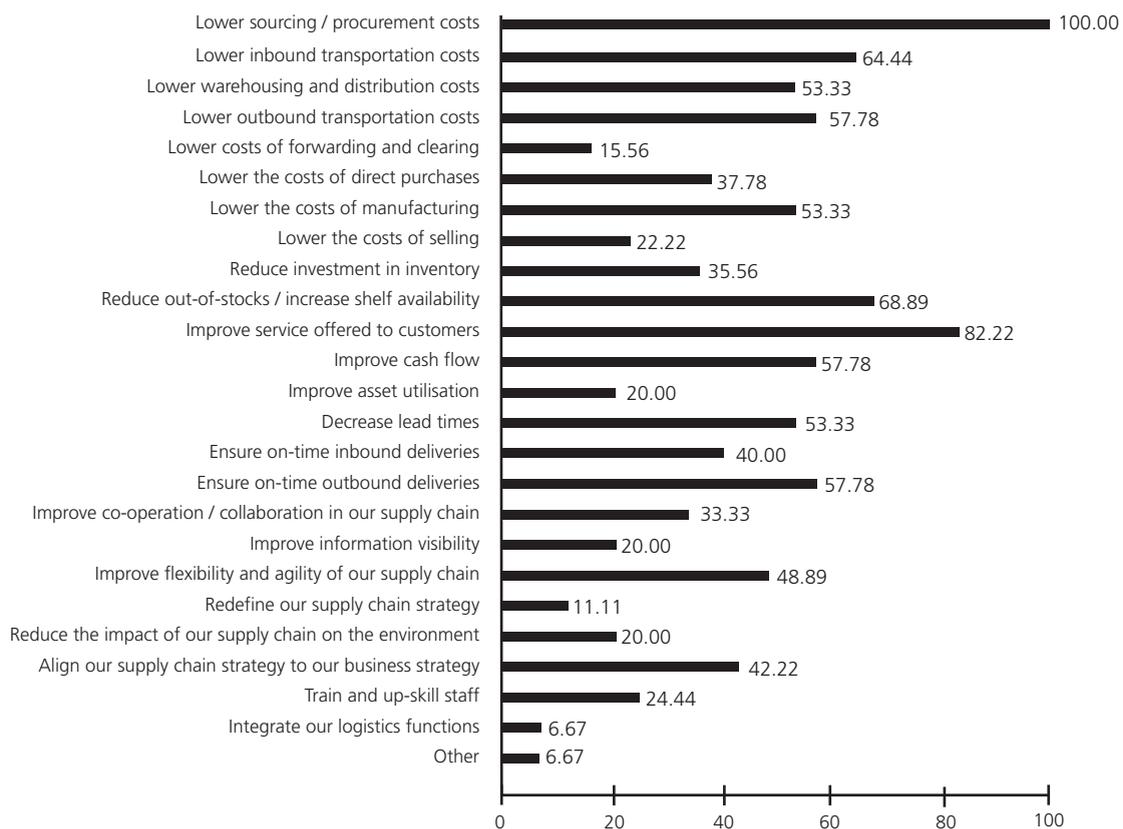
Companies who have neither significant complexity nor capability are in 'quadrant one', and in the current global competitiveness climate, are seriously at risk. Those in 'quadrant two' are businesses which have strong capability in their supply chain but are relatively less complex or globalised. These show the next highest degree of success after 'quadrant four', and are well positioned to

The sector shows a high degree of companies distributed in both the high capability/low complexity and the low capability/high complexity quadrants. In both cases, the degree of relative success is high, particularly – and anomalously – in the latter, where over 80% of companies professed themselves more successful than competitors.

The place definitely not to be in this industry is in a low complexity/low capability environment, where no companies at all profess themselves successful – and where almost half of the total industry situate themselves.

## Building and construction

### ► Supply chain objectives: (Building & Construction)



The industry's objectives for the coming year confirm a solid cost reduction and service improvement focus, which is understandable in an industry particularly bedevilled by materials and skills shortages, as we shall see. The five highest objectives, in order of priority, are:

- Lower sourcing and procurement costs (100% of the sample, versus 87% for the total sample group)
- Improve service to customers (82%)
- Reduce out-of-stocks (69%)
- Lower outbound transportation costs
- On-time outbound deliveries.

Where the industry rated higher for objectives

than the total sample group were in areas such as ensuring on time inbound deliveries, lowering costs of direct purchases, and improving flexibility and agility in the supply chain.

Among the objectives that rated lower than the total sample group were:

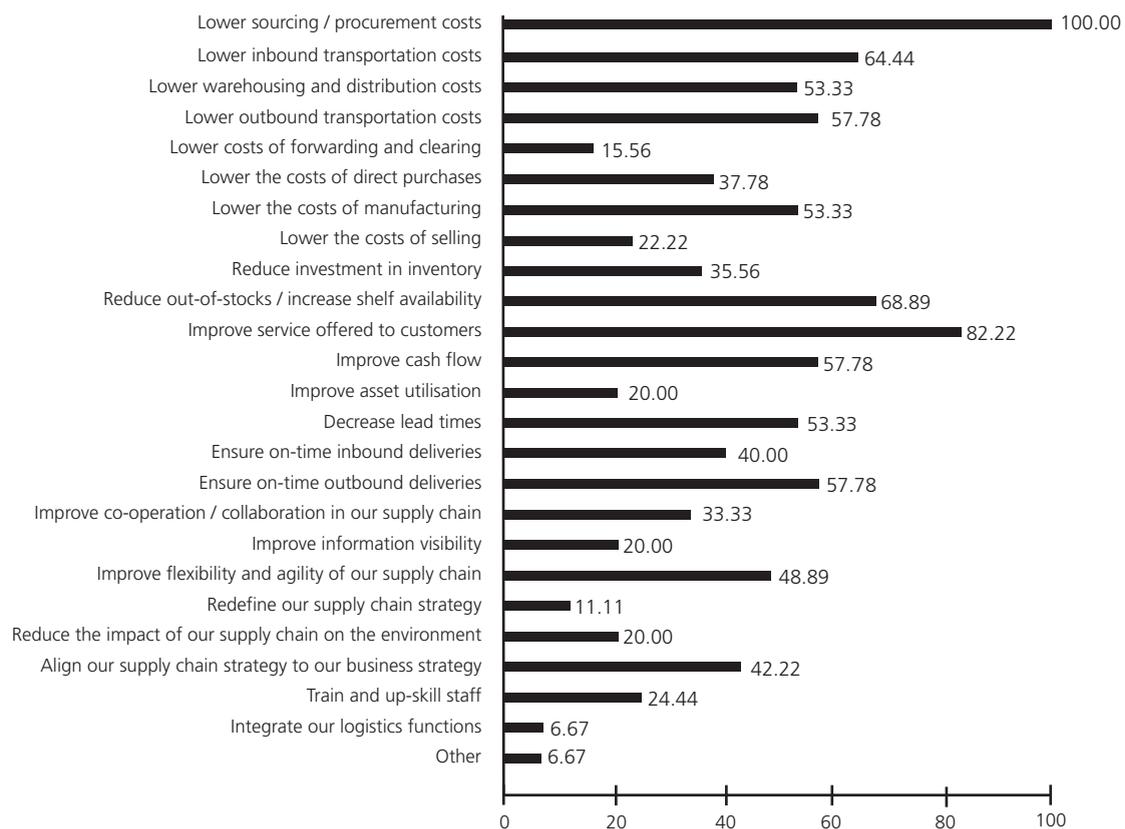
- Reducing investment in inventory
- Improving collaboration in the supply chain
- Redefining supply chain strategy
- Training/upskilling staff
- Integrating logistics functions

The focus for the industry is thus clearly on

straightforward cost reduction and service improvement, with a relatively lower focus on the supply-chain driven methods that will yield long-term cost and service benefits.

This approach differs markedly with the high-achieving 'quadrant four' companies in the general sample, whose emphasis on strategic redefinition and collaboration, among other factors, is having a positive effect on their competitiveness. This is in marked contrast to the building and construction sector, where half the sample deem themselves not to be succeeding in their attempts to improve their competitiveness in the face of increased demand and shortages of supply.

► Supply chain objectives: (Building & Construction)



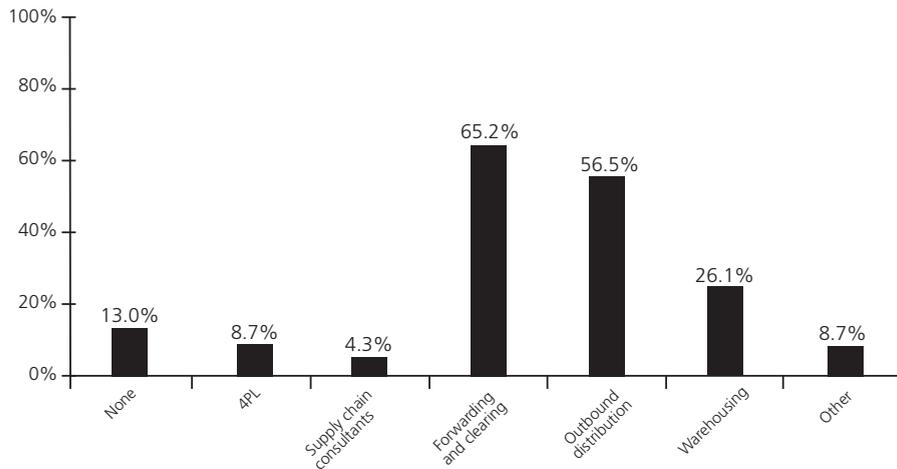
As far as the challenges to meeting these objectives are concerned; sourcing and procurement practices come first, followed by planning and forecasting capabilities, skills and capabilities of supply chain staff, warehouse management capabilities and benchmarking of supply chain performance. In all of these areas the industry scores higher than the total sample.

Of relatively less importance, at least when compared to the total sample, are factors like volume and complexity in the supply chain, integration of logistics functions, and the aligning of skills to strategy. These findings confirm the objectives findings. The industry is finding it difficult to optimise individual supply chain functions profitably,

and is challenged by the chronic skills-shortage. In addition, the issues that are challenges for the other markets – for example, volumes and complexity – are less important. Either they are genuinely less important for the industry, or, more likely, they are stuck in the mode of addressing the industry’s challenges in an efficiency-focused rather than effectiveness-focused way.

## Building and construction

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



### Outsourcing in the Building and Construction Sector

The industry is a very low user of outsourced 4PL and supply chain consultative services.

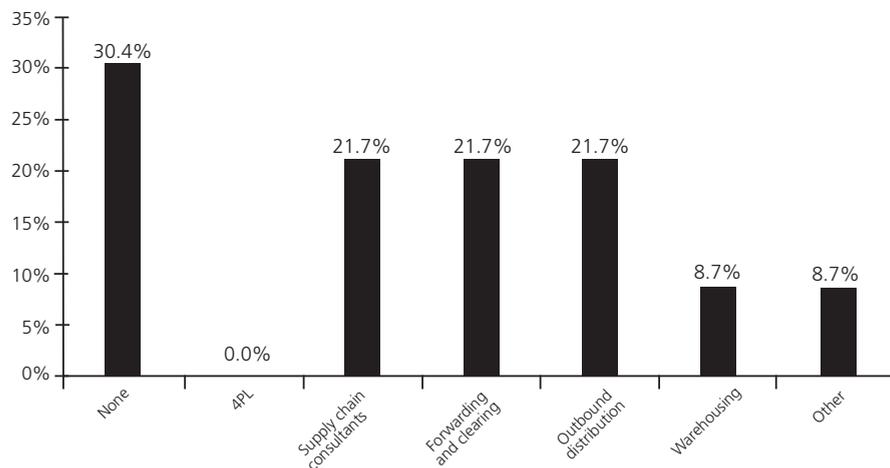
They are much lower users of 4PL service providers, at 9% compared to 16%, and also

make radically less use of supply chain consultants, at 4% compared to 24% for the total sample. The generally very low level of outsourcing suggests that they are tackling supply-chain challenges and reform in-house, with a clear lack of success. There is little sense of, the importance of integration of function, or visibility in the supply chain, or

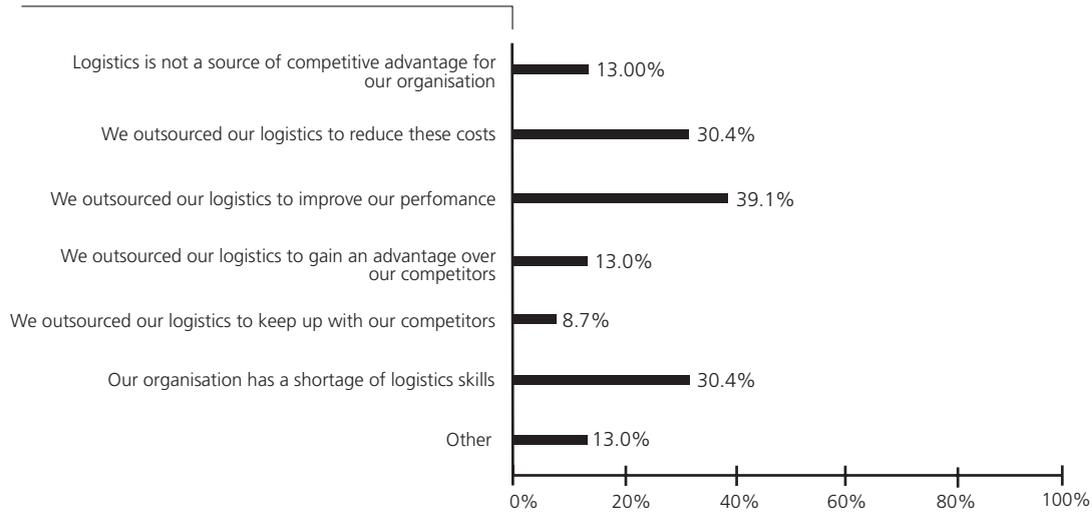
how outsourcing can address the skills issue. The picture is mitigated somewhat by the expressed intention to use supply chain consultants in the coming year.

This may represent the realisation that collaboration with supply chain experts is a better option than DIY solutions.

► Is your organisation planning on using any additional logistics service providers within next 12 months? If so, please indicate which types below.



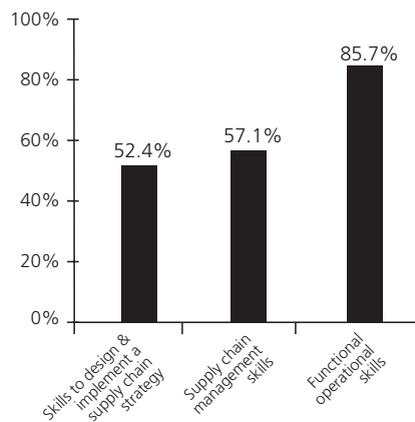
► Which of the following statements most closely reflect your organisation's reason(s) for logistics service providers?



When asked about their reasons for using supply chain and logistics service providers, a substantial 39% say it is to improve performance, and 30% say it is to reduce costs.

This is clearly a response to the skills shortage, and is an instructive comparison with the 'complexity masters' quadrant in the total sample, who outsource primarily for competitive advantage.

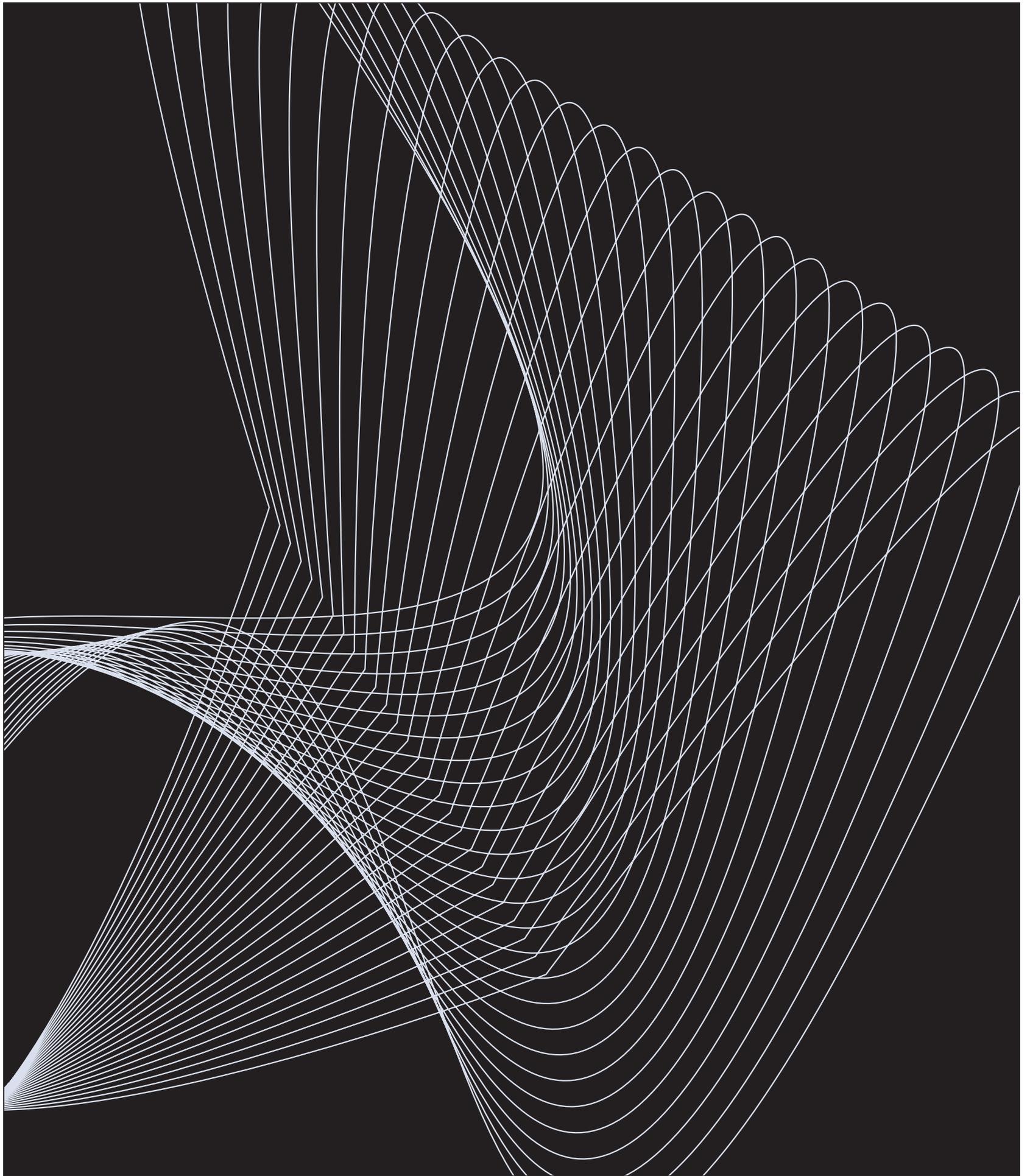
► At what level does your organisation experience a shortage of supply chain skills



Finally, in terms of the industry's view of its skills base and challenges, there is a huge skewing in the industry to a shortage of functional and operational skills – far more noticeably than in other industries.

This is clearly the urgent and pressing problem in the industry, and is being addressed, it seems, at a functional and operational level rather than also at a strategic and collaborative one.

*“Only 13% of the respondents reported outsourcing their logistics as a means of gaining an advantage over their competitors.”*



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