



# SMART

NAVIGATING

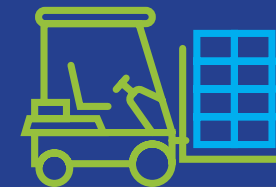
DRIVE TOMORROW'S CHANGE TODAY



# Welcome to the 2016 supplychainforesight report

In the late eighties and early nineties we saw the emergence of the “one world” economy coinciding with the development of the internet and an era of technology and innovation. The result? Radical change. The change created quantum leaps in global trade and affected national and regional economics, politics, business practices and skill sets. The new era simultaneously empowered the world’s customers and consumers. With it, the role of supply chains and logistics came to the fore as a means to create competitive advantage and sustainable business models to satisfy the needs of extended markets.

IN OUR 13TH ANNUAL SUPPLYCHAINFORESIGHT PROGRAMME we review the journey of change and adaptation South African businesses undertook to see how they fared and analyse the learnings they garnered along the way. As we move into a period of higher market disruption and greater economic and political uncertainty in South Africa, the ability of an organisation to sustain market position through its traditional business model and strategy has become increasingly challenging. Indeed, adaptation is now critical for survival.





**STEVE FORD**  
Chief Executive Officer  
Barloworld Logistics

As leaders, we are called upon to develop higher levels of awareness, better understanding and a clearer vision of a future in which we can create a sustainable competitive position. It is with this in mind that we focused this year's research, Navigating Smart - Drive tomorrow's change today - on how South African companies adapted to changing conditions and on how they are gearing up for an uncertain future.

Since the inception of the supplychainforesight programme, we have addressed many themes - from organisational innovation, customer centricity and change management to African expansion strategies. Whatever our thematic focus, we have sought to draw out thought leadership and best practices within the functions of the companies and industries we review.

The rising importance of logistics and supply chain management in achieving business success has been evident in our findings over

the last decade. Supply chain management relates to almost any business activity and has, in effect, been a key element in overall business strategy. It entails the management and optimisation of resources and business processes to meet specific business objectives e.g. customer satisfaction, greater efficiency, reduced risks, etc.

Logistics and supply chain management strategies and functions are increasingly being embraced in services industries as they begin to recognise the extent of their supply chains and the related logistical processes involved in managing business systems, outsourced partners and the increased flow of information (as well as money between all parties).

As a service provider for many of South Africa's leading industrial and commercial enterprises, we too are taking stock of the shifts taking place in our industry and in the needs of the markets we serve. We have continually evolved the supplychainforesight

programme over the years to identify key issues and trends to help guide the way forward. In the near future we propose to take supplychainforesight into a new area to develop and create the practical and tangible services and facilities necessary to support the findings of our surveys. In due course we look forward to introducing you to these initiatives - the first of which is our analysis of the skills issue which we commenced by surveying the perceptions of over 600 university students.

I would like to extend our thanks to all those who took the time to share their views and opinions with the supplychainforesight team. We trust you will gain full value from the findings of this year's report.

A handwritten signature in black ink, appearing to read 'S Ford', located at the bottom right of the page.



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supplychainforesight 2016



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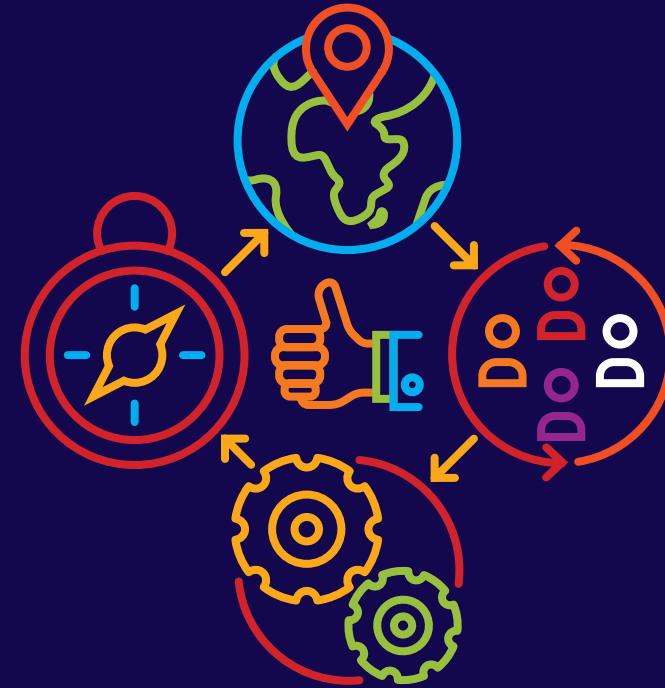
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## Introduction

Insights and overview



→ It is evident from the findings of the survey that South African companies have adapted and embraced change as a norm over the past decade. By international and global standards, South Africa continues to boast many examples of organisations with high quality service delivery ensuring those companies remain globally relevant and competitive with sustainable world-class supply chain and logistics processes.



The ability to remain competitive and sustainable through adoption of effective and efficient strategies and tactics has gained support at executive and general management levels.

Most, if not all of the themes of previous supplychainforesight surveys have been internalised to a fair degree and now form part of business

management focus - with customer centricity arguably being one of the most relevant.

***Business management focus with customer centricity arguably being one of the most relevant.***

Whilst respondents have emerged better equipped from the learnings of their past, they express concern about the current factors which remain

outside of their influence such as world economics and localised political and social uncertainties. This has resulted in more of a short term focus of sustainability

and a less optimistic view on driving forward-looking strategies.

Without doubt, change has been essential to remain relevant and sustainable in today's world. However, the majority of respondents believe they would have handled change and the adoption of new strategies differently as the performance of their businesses did not meet all expectations. This possibly indicates the adverse effects of external factors, unforeseen events, weak strategies or lower than required management effort, to ensure success.

Respondents indicated current key focus areas for their businesses are: managing rising operating costs, pursuing their customer related strategies and addressing ongoing technological developments. Operating costs are still seen as one of the biggest constraints of a business, which remains in line with previous surveys. However,

it is perhaps more prudent to understand the relationship of costs relative to the value they derive. There are many examples of increased costs generating higher returns and greater value.

***The true determination of the sources of profit and / or profit erosion within a business is clearly a growing need, coupled with the ability to use technology effectively to convert data and information into actionable intelligence.***

Looking ahead, the constraints of localised economic and political issues rank highly and seem to be a determinant of the respondents' visions for the future. This, combined with global economic issues, paints a perfect storm for South Africa and potentially a limited prospective outlook. The key opportunity expressed by

respondents is to seek growth opportunities outside of the country, particularly in regional and neighbouring territories.

As previously identified, the shortage of skills remains a major constraint. An understanding of the elements required to develop relevant skills should guide education and training accordingly. Interestingly, there is an increase of responses from service-based industries indicating a shift which is occurring globally.

In the developing world, where unemployment is excessively high and education and skills are inadequate, the future trend is alarming. Work is moving away from heavy or manual labour - a shift spurred by new technologies and robotic process developments. Job opportunities for the less skilled and poorly

educated will continue to be at risk as business activity is forced to adopt such new capabilities in order to remain competitive with technology and automation. Similarly, the growth of the service industry will drive the need for a higher skilled and higher educated workforce. This reality requires a review of job creation strategies designed to meet the needs of the future - not the past and present.

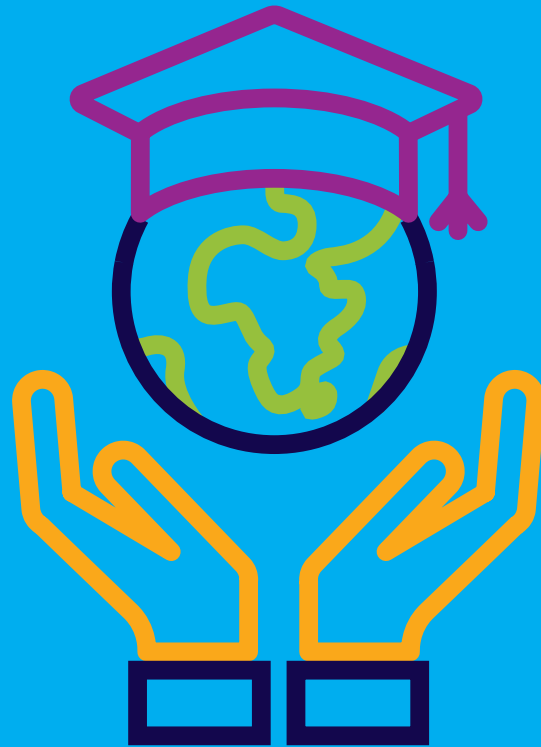
The report shows great strides have been taken to bring South African companies to accept and embrace the changing world, changing markets and changing technologies.



But change for the sake of change is unjustifiable if it is not well-researched, understood, designed and implemented to achieve specific and identified objectives and targets. There are minefields of changes to consider and it is the companies which navigate these effectively, carefully selecting and managing the opportunities, which will create real value going forward.

It is for this reason we titled the 2016 survey “Navigating Smart - Drive tomorrow’s change today.”

South Africa is witnessing a drive towards entrepreneurship and self-employment - yet there is a clear need to develop entrepreneurial, economic and management skills to ensure success and sustainability in this new era.



*It is for this reason we titled the 2016 survey “Navigating Smart - Drive tomorrow’s change today.”*



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## Navigating Smart

Drive tomorrow's change today



# Drive tomorrow's change today

This year's survey endeavoured to assess past performance of South African businesses as experienced by our respondents, and to understand where they stand currently. Then, to explore the strategies they are implementing for navigating effectively into a future full of unknown elements.





### Survey methodology and respondent profiles

Part of the supplychainforesight programme includes a formal web-based survey to garner the independent views and opinions of South African business leaders and supply chain professionals. Barloworld Logistics contracts Frost & Sullivan, an international growth consultancy company, to conduct this part of the programme on its behalf.

Over half the number of respondents to this year's survey hold senior level executive or managerial positions with a slight increase in responses received from CEOs. There was good representation from different job functions, providing a more holistic view of business strategies and supply chains in South African companies.

This also indicates the awareness, relevance and importance of supply chains in business today.

It was interesting to note again this year some new job titles and descriptions being listed in the "Other" category. This is indicative of the changes taking place in roles, responsibilities and traditional business structures. It also reflects the rise in responses from small, medium and micro enterprises (SMMEs).

CHART 1

### Respondent profile by industry

A wide range of industries are represented by respondents in this year's programme, demonstrating the growing focus on supply chains in all sectors.

Respondent profile by job function

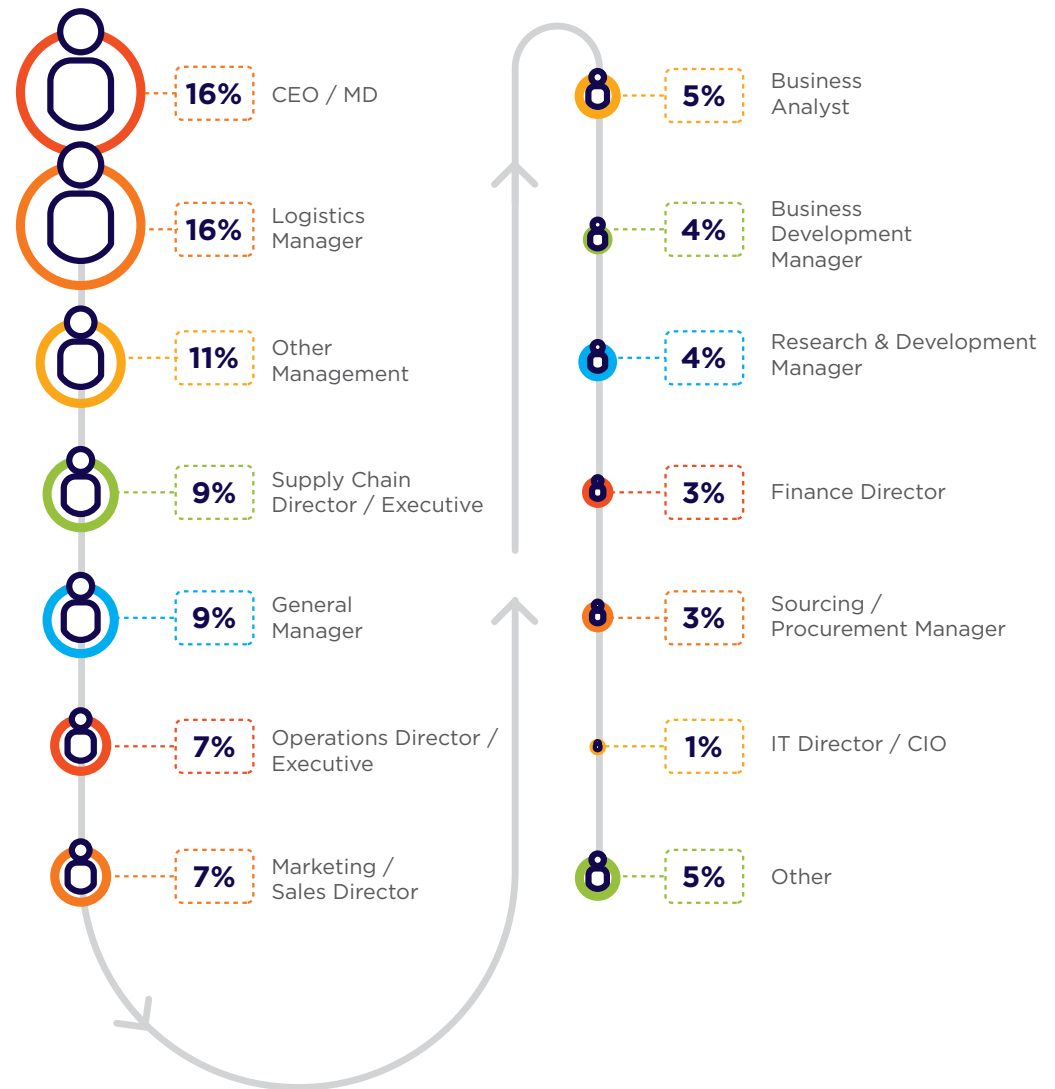
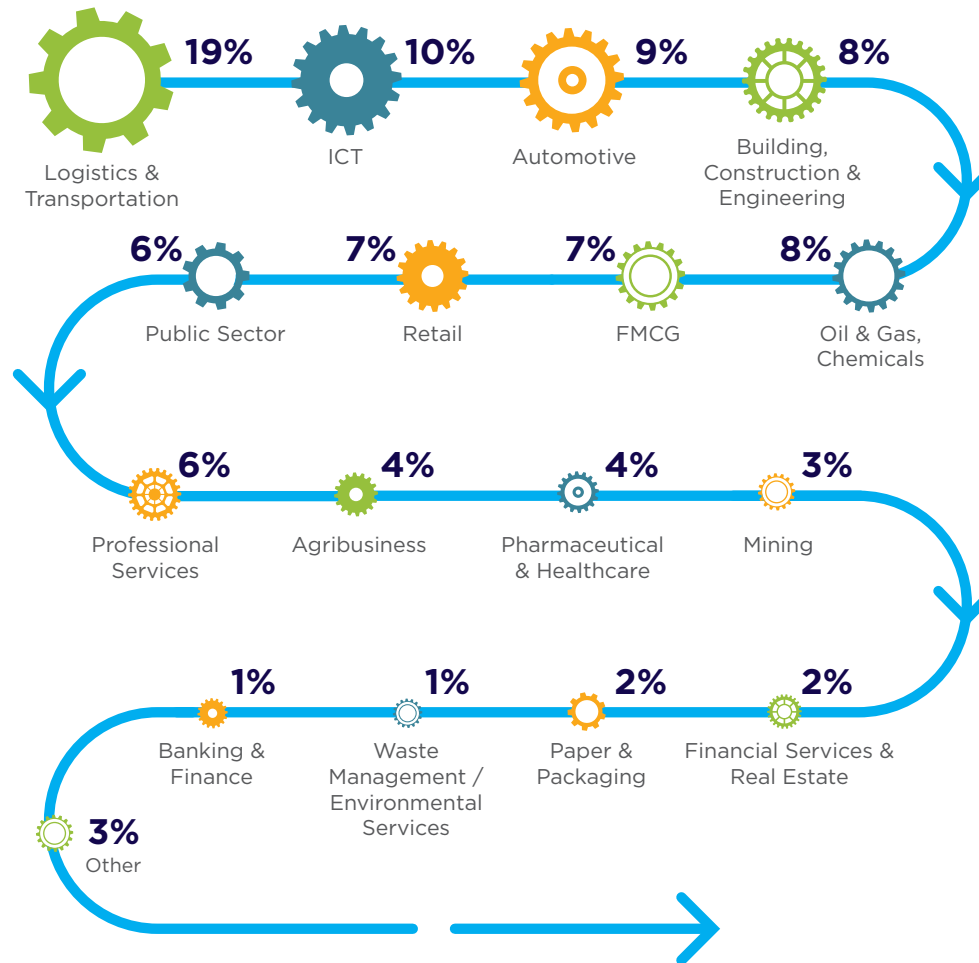


CHART 2

Respondent profile by industry



The profile of respondent industry sectors is beginning to reflect new areas of economic activity in line with the changing face of the business world, and the needs of the market for products, services, technologies and facilities. With entrepreneurial developments and niche start-up businesses, this profile of large and small industry sectors will reflect a broader base of business activities. It will also begin to reflect the growing influence of service-related ventures.

It is of interest to note the trends in a country such as China where there have been dramatic shifts from labour intensive

industrial activities towards a growing service industry sector - accelerated by entrepreneurial developments and innovative technologies. This trend will continue as the workforce becomes better educated, better skilled and more affluent. The ramifications are already being felt in the global economy.

**Respondent profile by company size**

The size and split of companies represented provides a broad view of business in South Africa.

Large companies turning over in excess of R1 billion a year made up 48% of the sample, with the remaining 52% of the sample coming from respondents in SMMEs. The slight increase in responses from the small to medium sized organisations aligns with the trend of growth in service companies.

Respondent profile by company size (annual turnover)

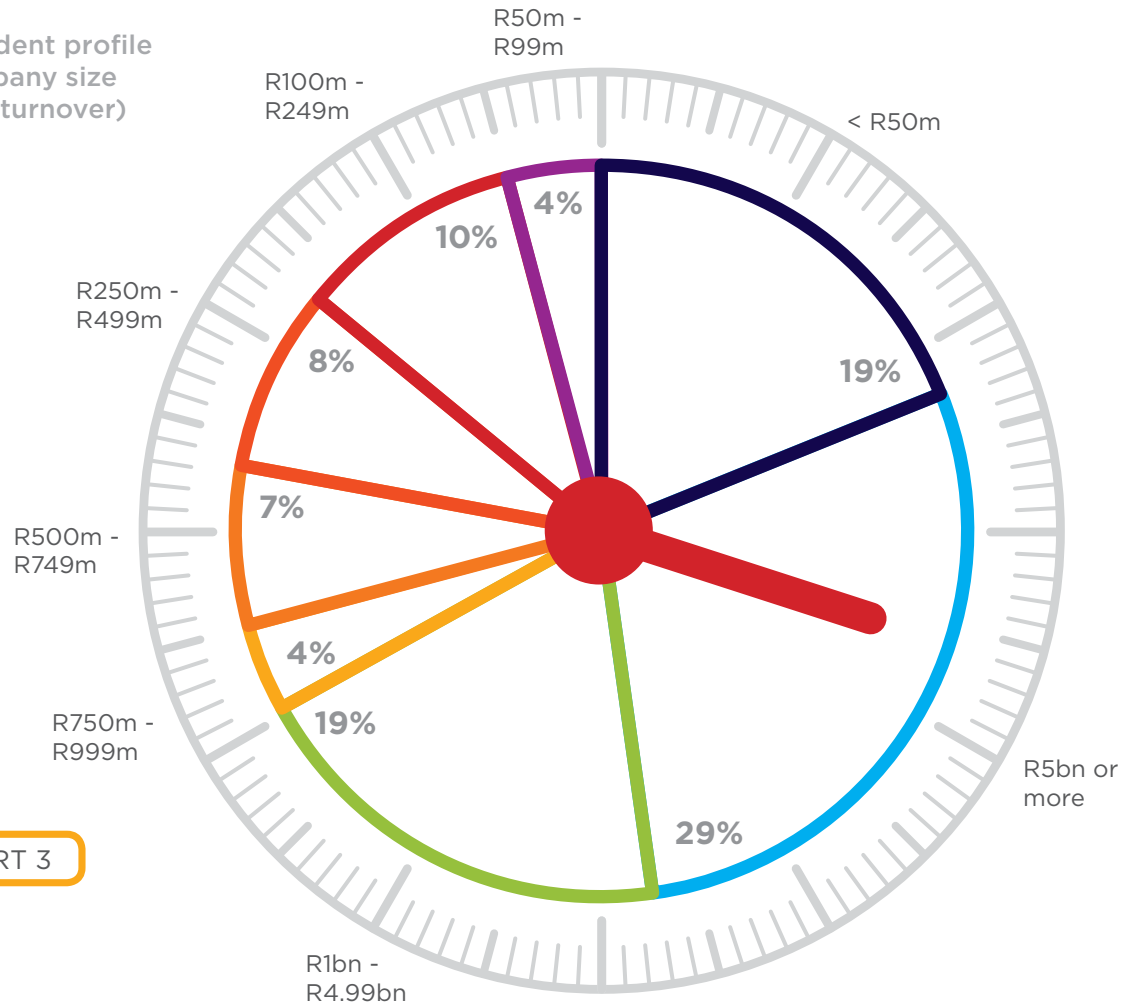


CHART 3



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## Reflection

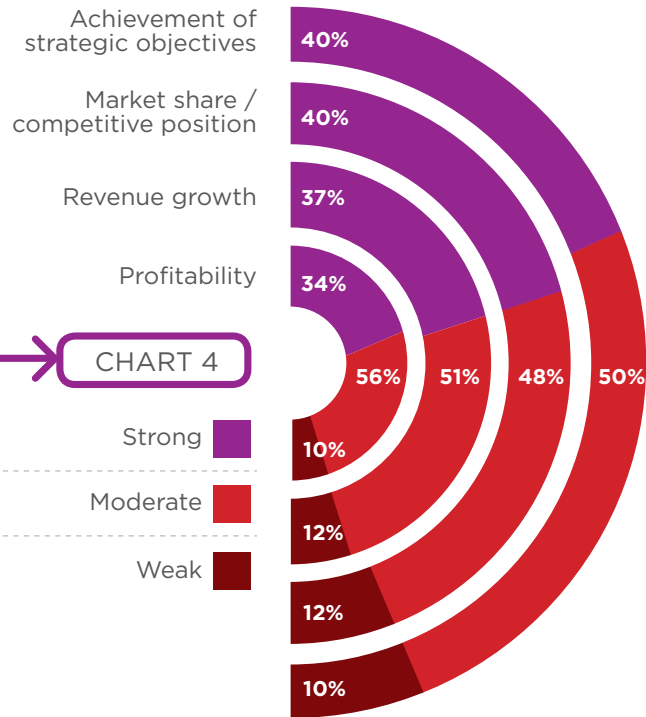
How has your business performed over the past five years?





# → How has your business performed over the past five years?

In this section, we sought to understand the challenges, responses and results of South African companies' journeys over the last five years. We sought to uncover the degree to which companies had engaged in new approaches and embraced more innovative strategies to mitigate the challenges of the changing operating environment. We explored if and how they adapted to the changing tide of trends. We asked what worked well, what didn't, and what they would have done differently. Most importantly, did they succeed in achieving their business objectives?



Business performance evaluation over recent years

### Business performance over recent years

Respondents ranked their business results and performance in recent years as being mediocre, with over 50% ranking all categories of performance as being moderate. Only 40% rated their performance as strong in achieving their strategic objectives and competitive position. This appears to reflect the resultant low level of achievement in revenue and bottom line growth, with only 34% of respondents ranking their profitability target performance as strong.

The relationship between revenue, costs and profitability to create value is an area which should be reviewed in the context of each company's strategy to ensure the right measurements are in place to achieve real growth.

Whilst respondents in general believe they achieved their strategic goals, in many instances this does not appear to have been converted into enhanced market share or improved revenue or profit objectives.

The factors that influence this may well be out of their direct control - these being global economics, the South African economy and political uncertainty. It also may relate to a question of how well the strategies were researched, designed and implemented.

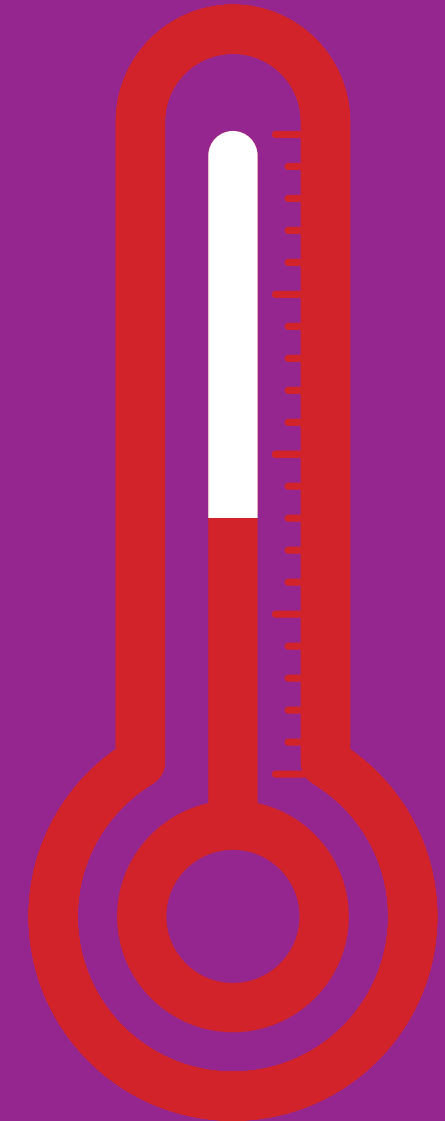
***Notably, South Africa's investment in research and development has dropped materially in recent years.***

This is concerning in a world of constant change and competitive markets whereby research and development are key requirements for business success. The question is therefore raised as to how this is measured in today's business and industrial world, where innovation and development is more of a company-wide approach rather than a departmental one.

It is also an issue of how strategic objectives are determined in an organisation, and whether goals are adequately developed with and supported by employees. The involvement of people at all levels within an organisation and the recognition of the role they can and should play is placing increasing pressure on company leadership. Today, leaders are being called to embrace a more inclusive and participative role for employees to harness the potential of the entire organisation.

***“Only 40% of projects ever achieve their goal”***

***IBM 2015***



## Overall business assessment

When assessing how their companies have adapted over the last five years, 66% of respondents said their companies needed to adapt significantly to changing conditions. The fact that only 51% of respondents agree the changes made were very effective and the other half feel they haven't achieved all the value they could have, highlights the issue that managing change is challenging. Perhaps their responses to change were more reactive than proactive, or alternatively, not adequately researched, planned and implemented?

This response relates directly to the insights and feedback from respondents to last year's supplychainforesight programme, "Embracing change for a sustainable future". Only 22% of respondents rated their companies as approaching

change strategically, with the majority reporting an adaptive and responsive approach to change. Respondents also indicated their companies did not have formal processes for identifying and interpreting trends and managing change across the organisation.

The feedback received this year further indicates some of the changes made were not beneficial, which is perhaps why respondents say they would have done things differently. This underscores that opportunities arising as "nice to have" or "need to have" and "change for the sake of change" should be avoided. Risk assessment is a key element of change management.

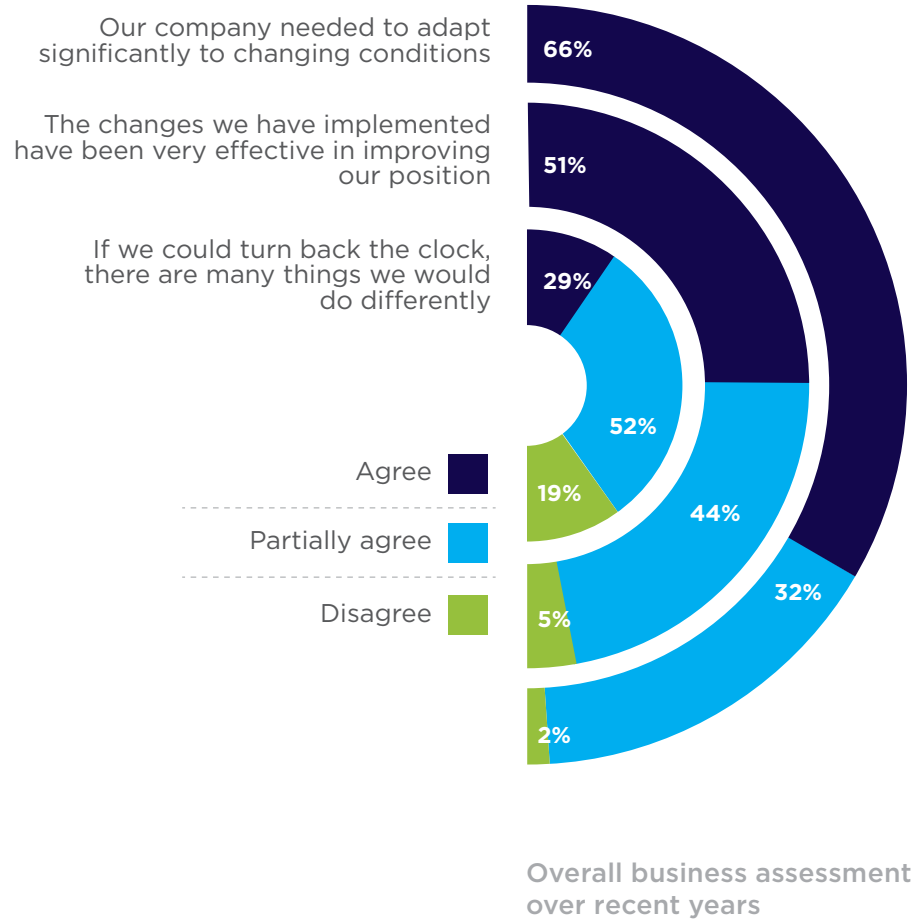
Identifying and managing change was ranked by 89% of last year's survey respondents as their top business objective, followed closely by 87% of respondents

ranking increasing the flexibility, agility and responsiveness of their businesses as their second objective. Having the ability to change and adapt quickly though was ranked as their top business constraint, clearly indicating that implementing change is not easy and requires specific focus and skills.

Some changes entail real innovation and some are merely responsive: both have elements of risk. ***It is evident that cultivating the ability to identify, implement and manage change effectively continues to be an essential ingredient and skill set for future success.***

As seen from the assessment of the past and of current status, companies are endeavouring to be more agile, flexible and responsive - but this remains an ongoing challenge and key focus area for the future.

CHART 5





### Threat from new entrants to market

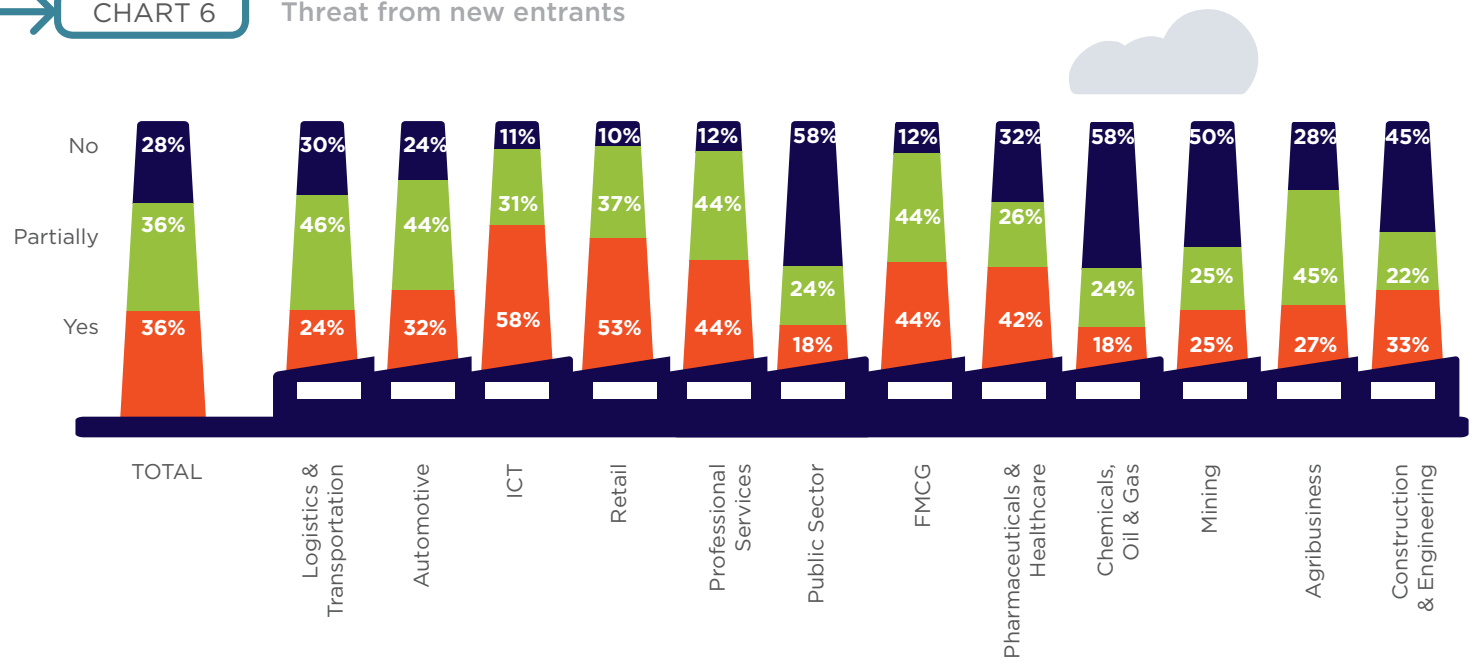
The chart titled threats from new entrants highlights the increased risk that relates to certain business sectors and in this regard the threat to ICT, Retail, FMCG and Professional Services. It is materially higher than the average reflected for the balance of industry and business sectors. This could be that the barriers to entry are possibly lower in certain instances or it could highlight the impact of convergence on these sectors.

Many companies are moving into new markets facilitated by technology, new business models and “co-opertition” causing disruption across many industry sectors.

***“Whenever you see a successful business, someone once made a courageous decision.”***

***Peter Drucker***

CHART 6 Threat from new entrants



### Competitive advantage

Most respondents feel the changes made in their businesses have enabled them to attain a stronger market positioning. Gaining a competitive advantage should invariably have a positive impact on market share and profit margins, and whilst this chart reflects a highly positive response, it is countered elsewhere in the report by lower than expected performances.

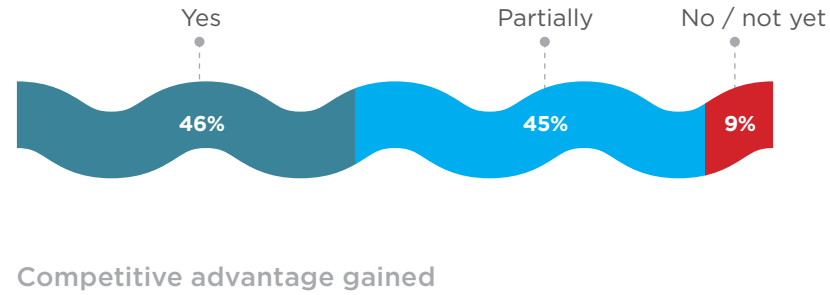


CHART 7



### Adaptation to changes in business environment

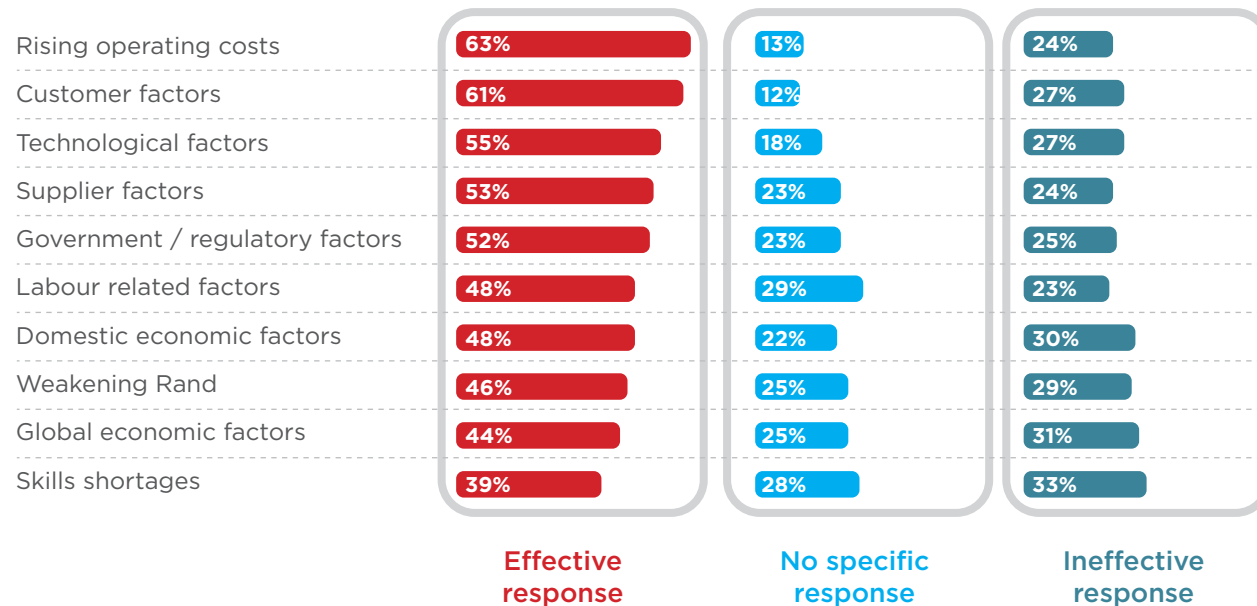
In order to understand how companies have adapted and if they have done so effectively, respondents were asked to rank their company's performance against specific factors.

At first glance, it would seem companies fared quite well, however when comparing the response to these specific elements against the respondents' view of their company's general performance, it is evident there are many areas still needing to be addressed or improved.

Rising operating costs was ranked by 63% of the respondents as being managed effectively. Rising costs are a fact of life, managing costs is a key factor of any business and certain cost elements fall out of a company's span of control and affect all businesses equally e.g. interest

rates, fuel costs, taxes, exchange rates. It is the ability to adapt and best manage this given set of circumstances that can contribute to a company retaining a competitive advantage.

CHART 8



Effectiveness of adaptation to changes in business environment over recent years

In the current economic and political climate, the issue of retaining and sustaining financial returns seems to have taken priority over other strategies, perhaps due to the lack of clear understanding of where the future lies. The risk herein is a short term focus with the potential of losing a competitive position by being leap frogged by other businesses either locally or internationally.

***The real opportunity lies in a company's ability to ensure costs are managed in relation to creating value going forward.***

Cost cutting exercises have in the past been a management tool applied in difficult times, but often without due regard to the value being gained or lost by such actions. Cost control invariably is not a simplistic solution, as every cost incurred by definition should create value. Knowing where value is being eroded or where values are at unacceptable levels is vital to managing costs.

Due to high indirect cost burdens such as overheads and shared services, the standard accounting practices and financial reports do not currently allow companies to determine where true sources of profit or profit erosion is taking place within their organisation. Whilst data and information is now prolific, it is the conversion and analysis of this into tangible and actionable intelligence that is a major thrust and focus of many organisations. Understanding profit and loss at transactional level is a goal being sought globally - and will uncover where costs create or destroy value.

Other factors ranking high in terms of changes that have been addressed effectively by respondents were related to customers, technology and suppliers. The importance of these business activities has been confirmed over the last few years as businesses address market trends in rising consumer power and ongoing technological advancements. Impacts of these elements are driving companies

to re-look their business models and supply chains as areas of opportunity.

It is disheartening to see the skills shortage rated as the most ineffectively addressed factor by respondents. Since its inception in 2003, the supplychainforesight programme has highlighted the skills challenges facing the industry as well as the country at large. This is not isolated to South Africa however, it is a topic that has been discussed and debated consistently for many years without any noticeable progress. The impact thereof is possibly reflected in the growing levels of frustration seen in our youth.





***“Sometimes the questions  
are complicated and  
the answers are simple.”***

*Dr. Seuss*

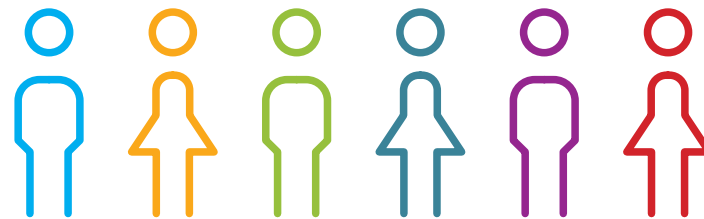


For this reason, we undertook to understand the views and opinions of students with regards to the education they are receiving. The findings of this survey will be published separately and we trust will facilitate the creation of actionable solutions incorporating a specialised need for entrepreneurial training.

“To be skilled means to have the ability to do something well”. - “To have a competency and capability”. (Oxford Dictionary). The skill shortages referred to in all the recent supplychainforesight surveys not only appear to relate to the

vocational skills of the workforce and lower level management, but also at leadership levels - in the ability to lead, communicate and effect and manage change.

Whilst the lack of skills has its founding in a mismatch between education and training on the one hand and the needs of commerce and industry on the other, there have been numerous engagements with the public sector and many excellent initiatives in the private sector. Yet we don't seem to be gaining traction in developing the appropriate skills for the future success of our people, industries and country.



***“When you’re finished changing, you’re finished.”***

***Benjamin Franklin***



### **Assessment of strategies**

When asked to assess the performance of various strategies their companies have adopted over recent years, ***the majority of respondents indicated they would change or adapt the way they implemented each strategy*** listed. This clearly indicates a mismatch between expectation and the results actually achieved. This chart reflects a sharp contrast to Business Performance ratings given in Chart 4 and supports the view that it is not always easy to achieve objectives and strategies without the continuous need for re-evaluation and adaptation. Each strategy needs to be effectively planned and managed to reach its objective.

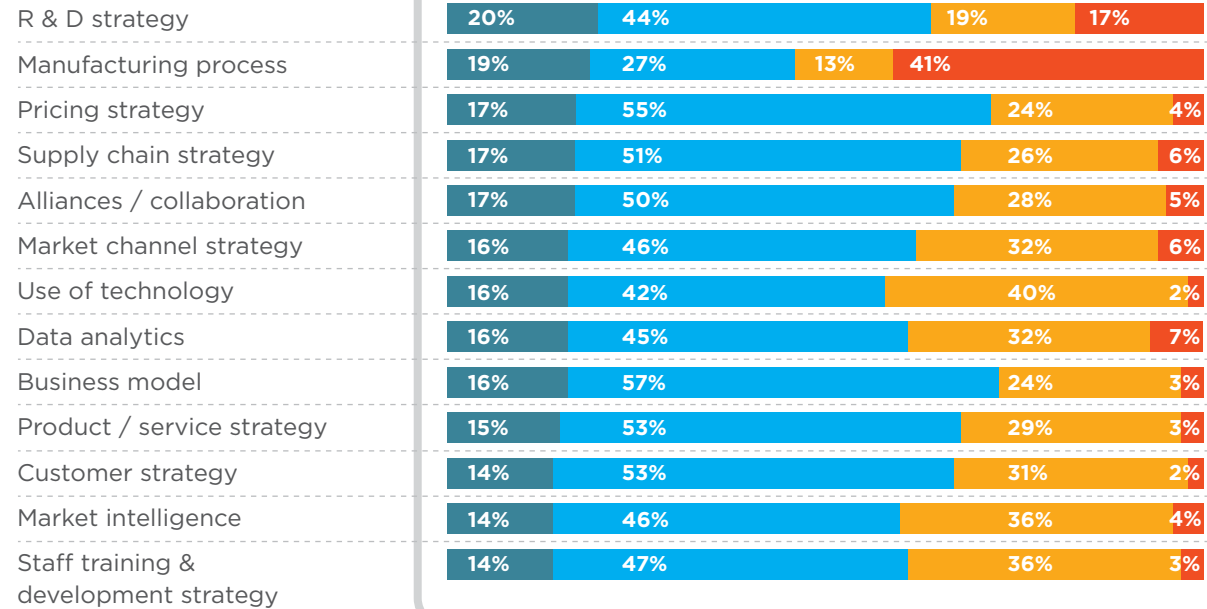
The outlier in the responses was 41% of respondents saying the manufacturing process was not applicable to their business - again highlighting the growth of the service industry and a degree of outsourcing of such manufacturing functions.

In today's world, with the enhancements in technologies, robotics and intelligence, the ability to make major improvements to all physical operational functions is enormous. However, this does not yet seem to have focus (or high priority) in South African industries, perhaps primarily

due to the pressure to create jobs and enhance employment. It is an issue to be addressed as sophisticated technologies and robotics may well put labour intensive processes at a disadvantage going forward, especially for those companies competing on a global stage e.g. the Automotive manufacturers.



CHART 9



- Would not change a thing
- Would change something
- Would change a lot
- Not applicable

Assessment of strategies adopted over recent years

### Evaluation of the effectiveness of innovation implemented in recent years

Respondents' views on the effectiveness of innovation implemented within their own businesses mirrors their views on the success of their strategies and adaptations to change: innovation seems to have occurred across most areas of the business, but with a moderate degree of success in general.

Whilst a large percentage of respondents are not involved in manufacturing, it is apparent from the survey that even with the advent of technology, and in particular robotics, it would seem that little innovation is taking place in the manufacturing processes - or seen as an area of focus. In the early days of Supply Chain Management, it was in manufacturing that significant changes were made. As a major cost component in any product, manufacturing systems, processes

and methodologies are potentially key areas for optimisation.

We endeavoured to identify from the responses a sense of value and importance of the adoption of innovation and development in an organisation - and the realisation of real impact and benefits derived.

The following chart gives a graphic view of where innovation has been of importance and what value was achieved. Ideally, all the factors identified need to

be moving towards the upper right quadrant. There seems to be a long way to go to achieve effectiveness in what respondents identified as important in innovation.

These results may be affected by respondents' interpretation or perception of innovation as against concepts of continuous improvement, creativity and entrepreneurship - all of which are directly motivated by people - driven initiatives.

*“What good is an idea if it remains an idea? Try. Experiment. Iterate. Fail. Try again. Change the world.”*

*Simon Sinek*





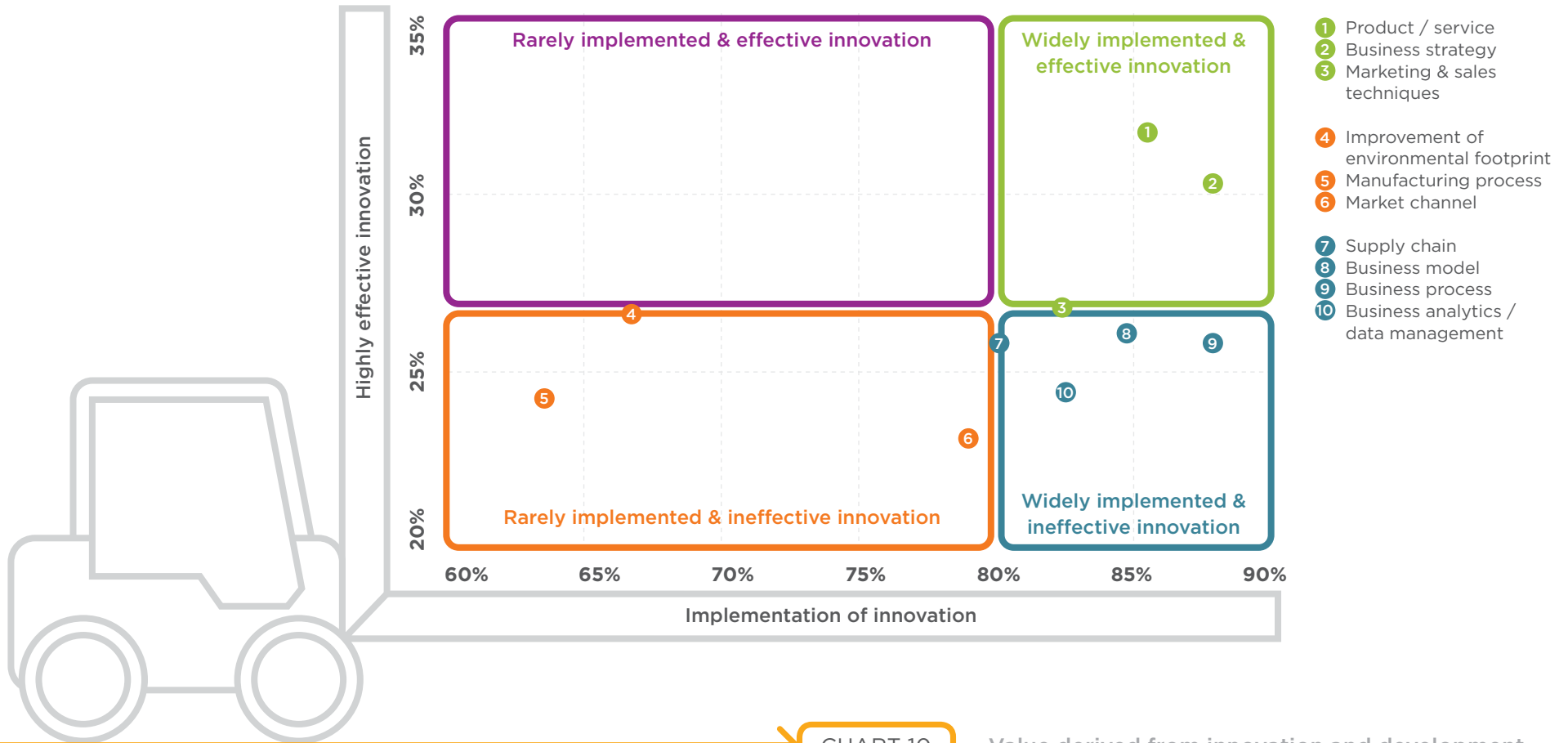


CHART 10

Value derived from innovation and development

### Effectiveness of strategic decisions

*What is a strategic decision?  
One that is based upon a key element or elements of a business where the impact of that decision can have a material impact upon the success and long-term sustainability of the business.*

The effectiveness of various strategic decisions taken to date is best reflected in the following chart and highlights the link between the adoption of strategies and the perceived value or success. The chart details several key decision areas within

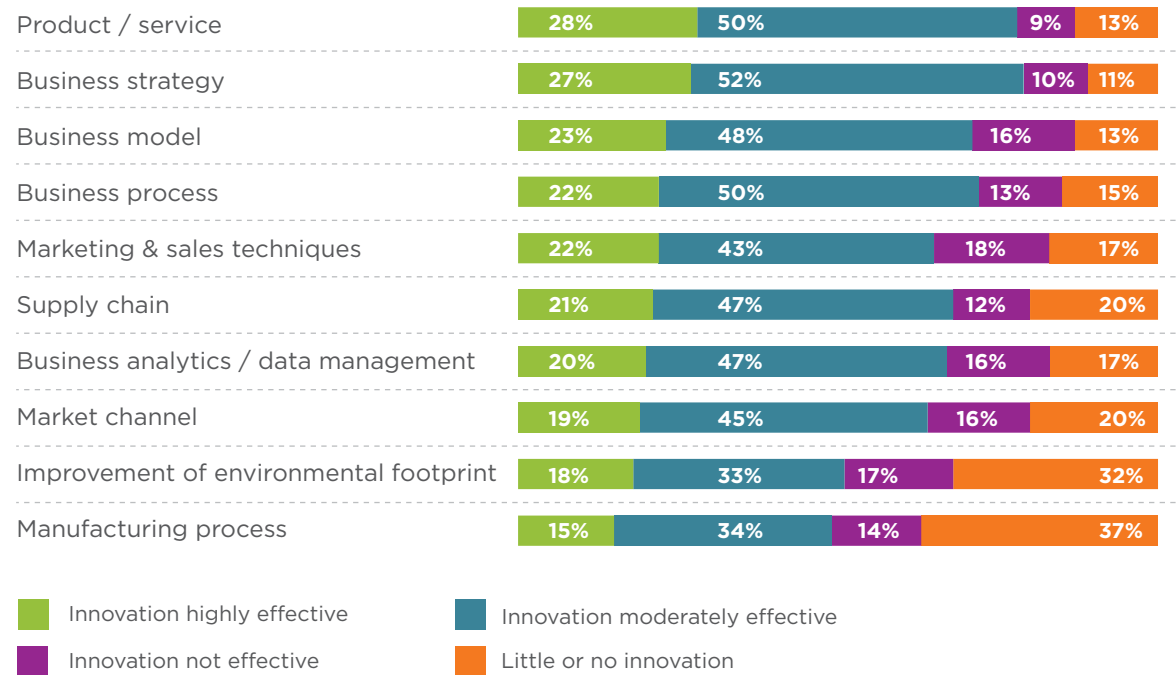


CHART 11

Focus on areas of development and innovation

the business environment and shows the results of strategic decision-making to have been satisfactory or highly effective up to 50% of the time, with the balance of respondents reflecting partially effective or ineffective decisions. This suggests most strategic decisions were not necessarily based on the premise of and reliance on innovation, although they were probably influenced by it.

It is likely individual respondents would have focused strategic decisions on a few key areas requiring attention where those individual performances could reflect a higher level of effectiveness. As can be seen in each of these listed key areas, there are some where they believed the need for new strategies and changes were not applicable.

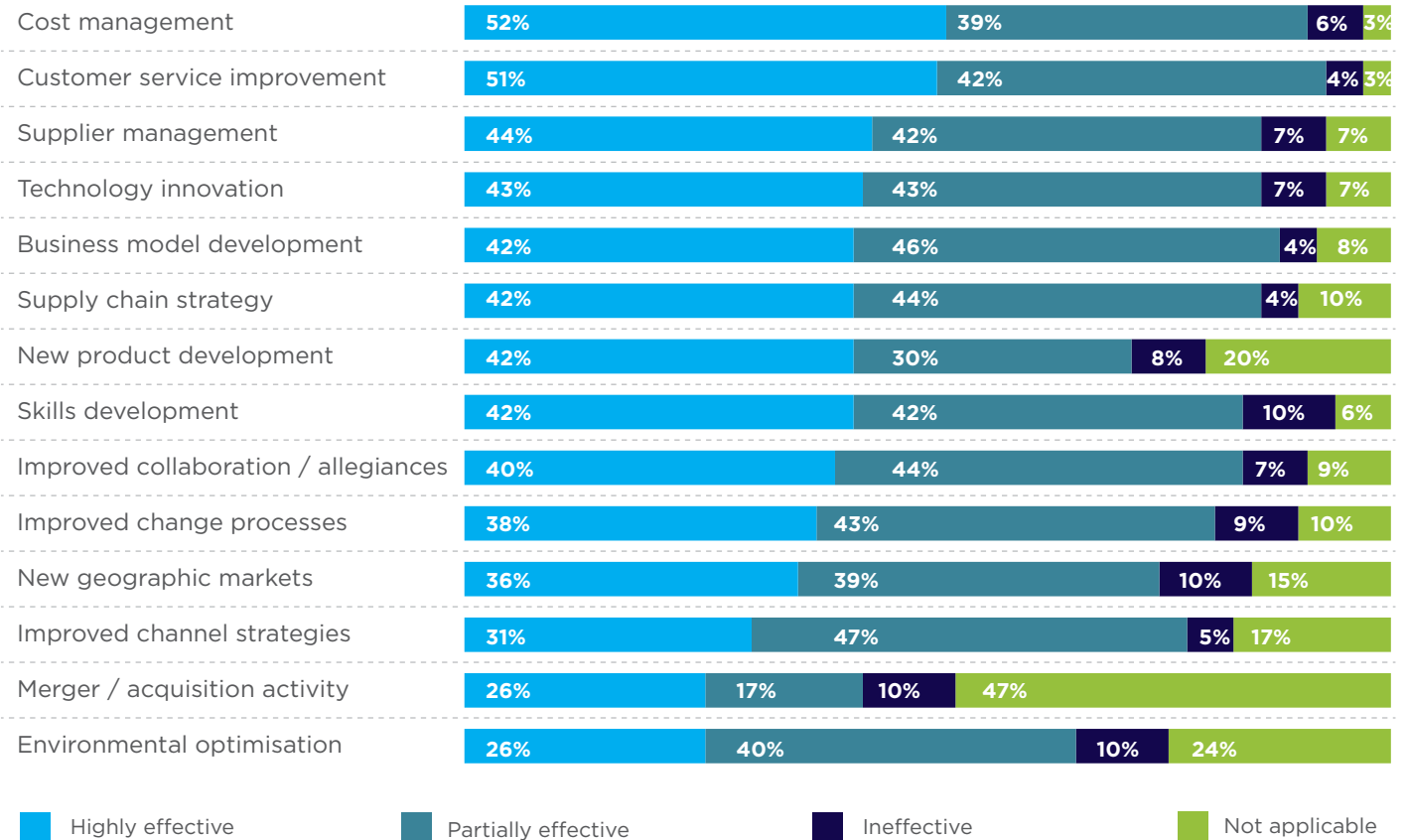


CHART 12

Ranking of strategic decisions

With cost management ranking highly in terms of effectiveness, the important question is to what extent did that raise or sustain existing profit levels, open new markets or increase market share, as that must be the justifying factor in cost control.

For each respondent, such a chart will reflect priorities and performance - and guide future strategic decisions to optimise the achievement of goals and targets. Whilst it is commonly stated that only some 40% of strategic changes and decisions

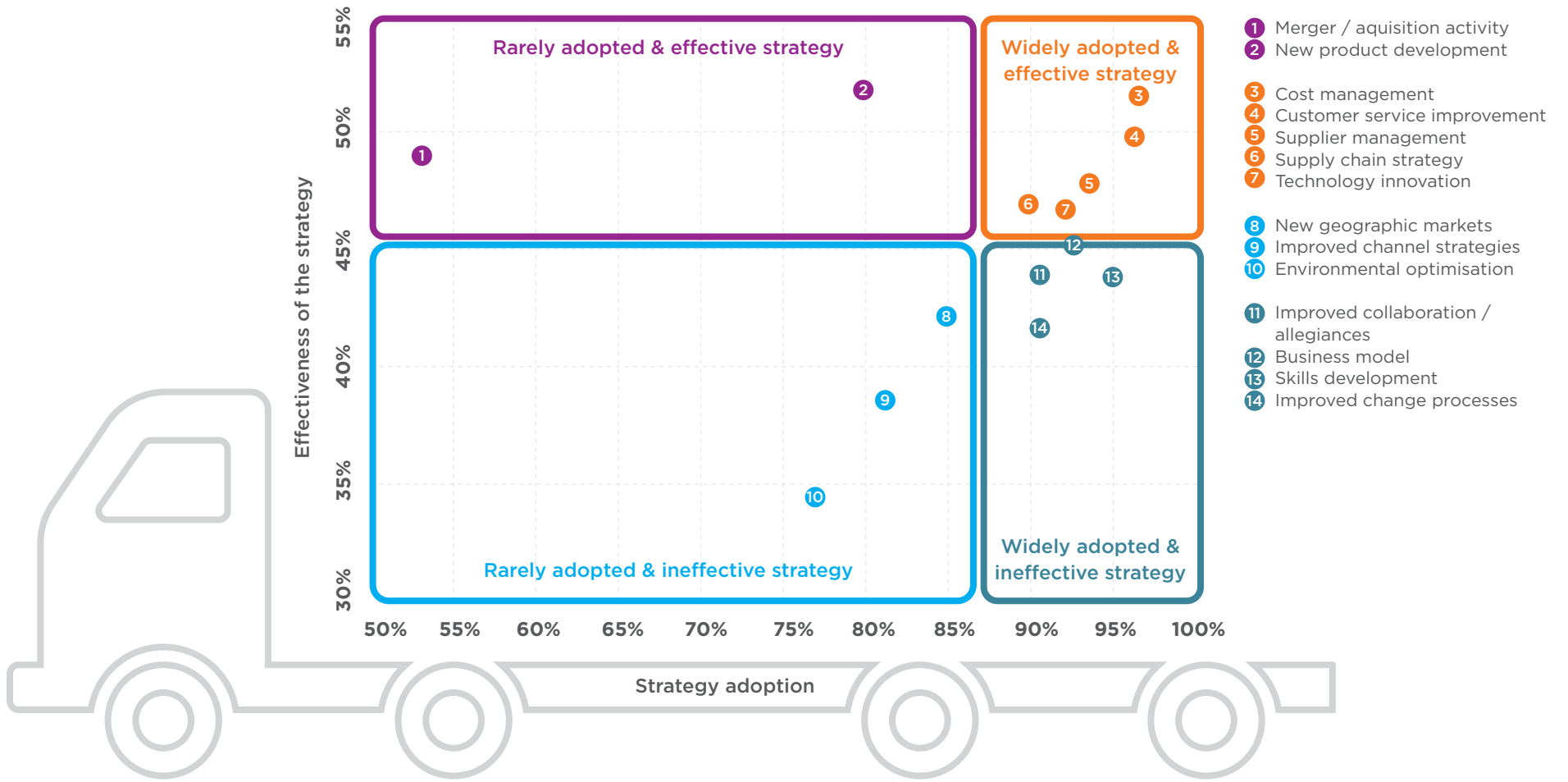
actually achieve their objectives, it is in the other 60% that businesses need to ensure a high level of success which involves detailed analysis, plans and the implementation of processes.

Great success in one strategy may affect or influence the

performance of other strategies. It is vital to have an overriding goal and objective which takes into account each of the individual strategies taking place. This ensures effective alignment and balance with a common goal and achievement of the principal objective.



CHART 13



Adoption and effectiveness of strategic decisions

CHART 14

Overall assessment of strategies

A nation of foxes and squirrels



47%

**Squirrel**

Positive, progressing but searching

42%

**Fox**

Dynamic, determined and creative

9%

**Rabbit**

Frozen in the headlights: Sees the problem, but has no solution

2%

**Ostrich**

Head in the sand: Ignores the problem

**Overall assessment of strategies**

The report has endeavoured to graphically reflect the mood and self-assessment of the respondents to current circumstances and challenges, as well as their ability to seize opportunities by the identification, development and implementation of workable strategies. The high percentage supporting a “Fox” like approach perhaps reflects a positive approach and effectively shows

the general optimistic nature of South African businesses. However, the previous charts indicate a varied level of success in meeting anticipated results from new strategies.

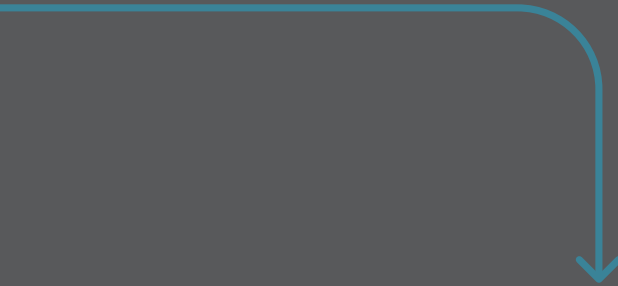
The 47% who identified themselves more closely with the Squirrel were the majority of respondents, and they reflect a more conservative yet positive approach – forward-thinking and responsive, always saving for the rainy day by seeking ways to secure and build their future. Perhaps more solid and less

entrepreneurial than the Fox, they are hesitant to invest in various strategies, preferring to ‘squirrel away’ for better times.

The Rabbits (9% of respondents) and the Ostriches (2% of respondents) either do not see the necessity for new or various strategies, or if they do, may fail to respond to or embrace them. They feel helpless with little ability to influence their own outcomes. Those who identified themselves closer to Rabbits may see the problems or opportunity - but lack the wherewithal to react and

implement solutions. Yet they may also be organisations that are recognising there are some things over which they have little or no control (political, currency, economic climate, etc.) – and succumb to stress by allowing circumstances to overpower them.

Ostriches and Rabbits may appear in various pockets of commerce and industry, and perhaps their strategy is to keep their head down and be followers - rather than leaders.



*“My dear, here we must run as fast as we can, just to stay in place. And if you wish to go anywhere you must run twice as fast as that.”*

*Lewis Carroll, Alice in Wonderland*



4

## Supply Chain Management

The value proposition





# What shifts have taken place in South Africa's supply chains?

The supplychainforesight programme has tracked the level of awareness and growth of supply chains in South African businesses over the last 13 years. *It is evident* from the feedback of respondents *the supply chain has become an integral part of the business strategy.* From the senior level of respondents to the wide spread of industries represented, supply chains have grown in importance and relevance and are being integrated into all business functions.

Alignment of the supply chain to the business strategy, customer integration, supply chain collaboration, sourcing and supplier integration are all elements of the supply chain that have created the most positive impact on businesses in South Africa to date.

### Impact of supply chain factors on business performance

There appears to be a high adoption rate for both supply chain technology and supply chain and logistics skills development; however, the full impact or value thereof is not yet being realised. Even though supply chain outsourcing is shown to have a positive impact for companies, the adoption rate seems to be low. This is interesting to note and is in contrast to general shifts seen in the market both locally and internationally. Outsourcing also appears to be off the radar for future strategies, which raises the question of whether the true nature and value of the concept of outsourcing is understood?

The perceptions seem to be based primarily on the ability

to control functions better if run internally as part of the company. If, however, there is a specialised external organisation which can perform certain functions more effectively, efficiently or faster, consideration needs to be given to outsourcing such functions through strategic relationships. Like the outsourcing of manufacturing or IT management, outsourcing of logistics management and logistical activities can - and often are - essential components of gaining access to specialised skills and creating and sustaining market share and a competitive edge.

The lowest scoring supply chain elements rated by respondents were inbound materials management and environmental optimisation. As previously covered in earlier surveys, environmental issues are raised as a priority regularly,

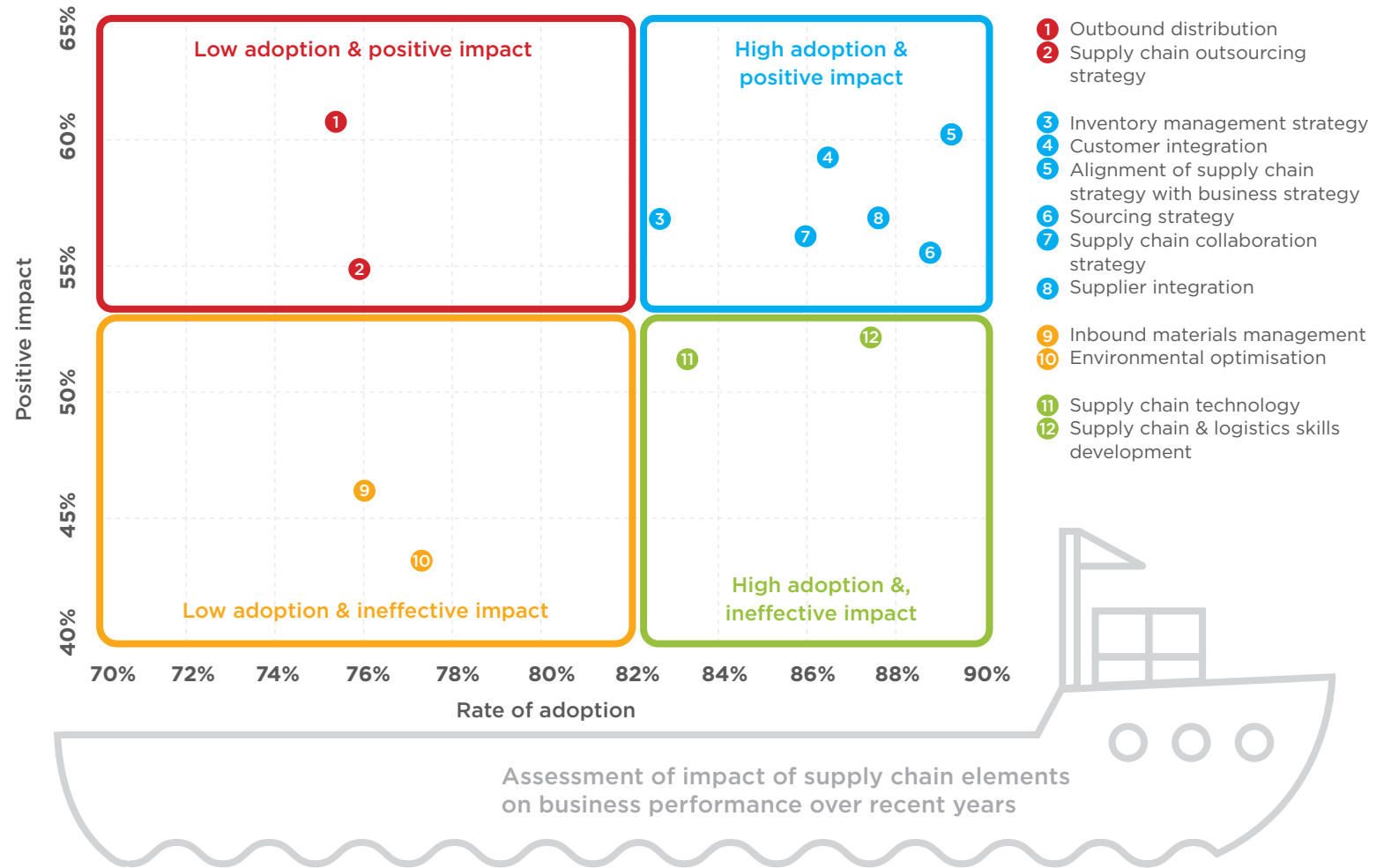
yet adoption remains limited in practical application except where financially justified or where other direct benefits can flow. We believe this will continue to evolve as new methodologies and benefits are identified - or necessity influences decision-making.

It is interesting to note inbound global materials management was such a low rated supply chain issue when, in relation to the level of costs and complexity involved, it can have a significant impact on the supply chain and business performance. It is those companies that effectively manage inbound flows that gain financial and service level improvement to enhance competitive advantage.

Costs related to logistical activities on imported goods may vary but are often hidden in Free-on-Board (FOB) or

Cost Insurance and Freight (CIF) quotations, and can be as high as 10% or more of the value of goods purchased and therefore justifies effective management. Inland transport, packing, insurance, freight costs, customs duties etc. all contribute to a major cost element in the final delivered product.

CHART 15



## Review of elements impacting the supply chain

Respondents to this year's survey show the strong focus on a diverse range of supply chain factors is delivering significant value to their companies. Universally, the alignment of the supply chain strategy with the business strategy has become more critical and is delivering very positive results for South African businesses. The integration of customers into the supply chain is recognised as an approach which delivers improved customer centricity, enabling improved performance and satisfaction levels. The strong focus on collaborative strategies is widespread and most likely

adopted to minimise cost and reap the benefits of smart partnerships.

In looking at the charts, there are some interesting revelations with outbound distribution and outsourcing seen as being of potential high impact but low on adoption.

Similarly, inbound materials management has possibly a higher level of potential impact than is shown on this chart and is also low in terms of adoption.

In evaluating the overall impact of supply chain related issues, there is a high degree of acceptance in nearly all the areas, tabled as either being a positive or moderate impact on their business.

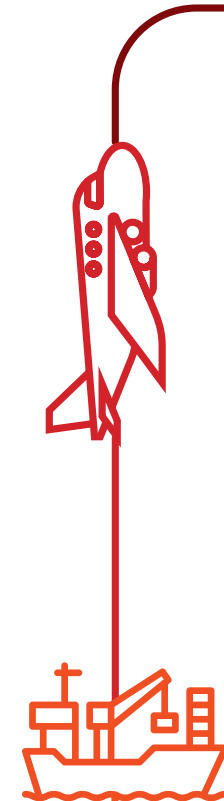
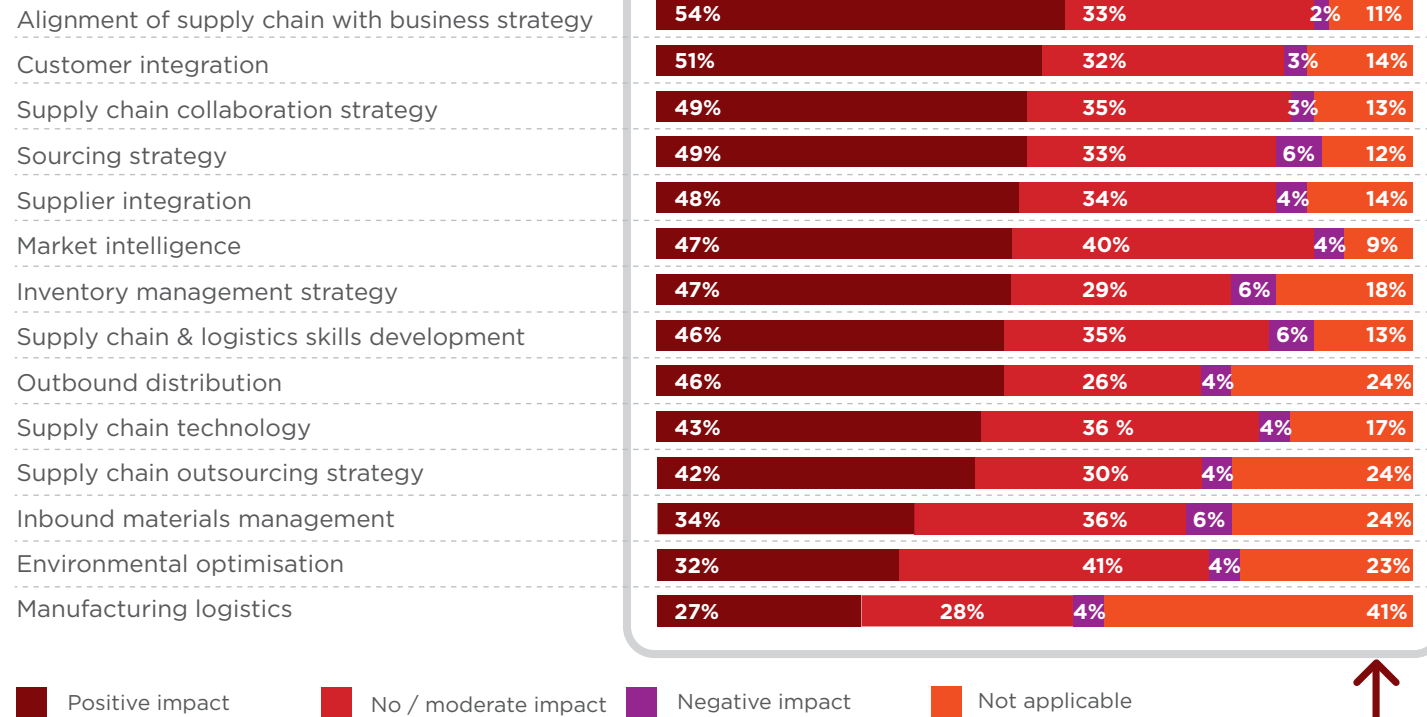


CHART 16

Supply chain factors and business performance



Review of elements impacting the supply chain

### Supply chain performance

The questions answered by respondents to the ensuing chart reflect the high degree of impact supply chain management has had over all business issues in recent years. Of interest is the statement that the lack of supply chain skills has not hampered performance, which is contrary to the earlier perception of skills being a major inhibitor to growth and sustainability.

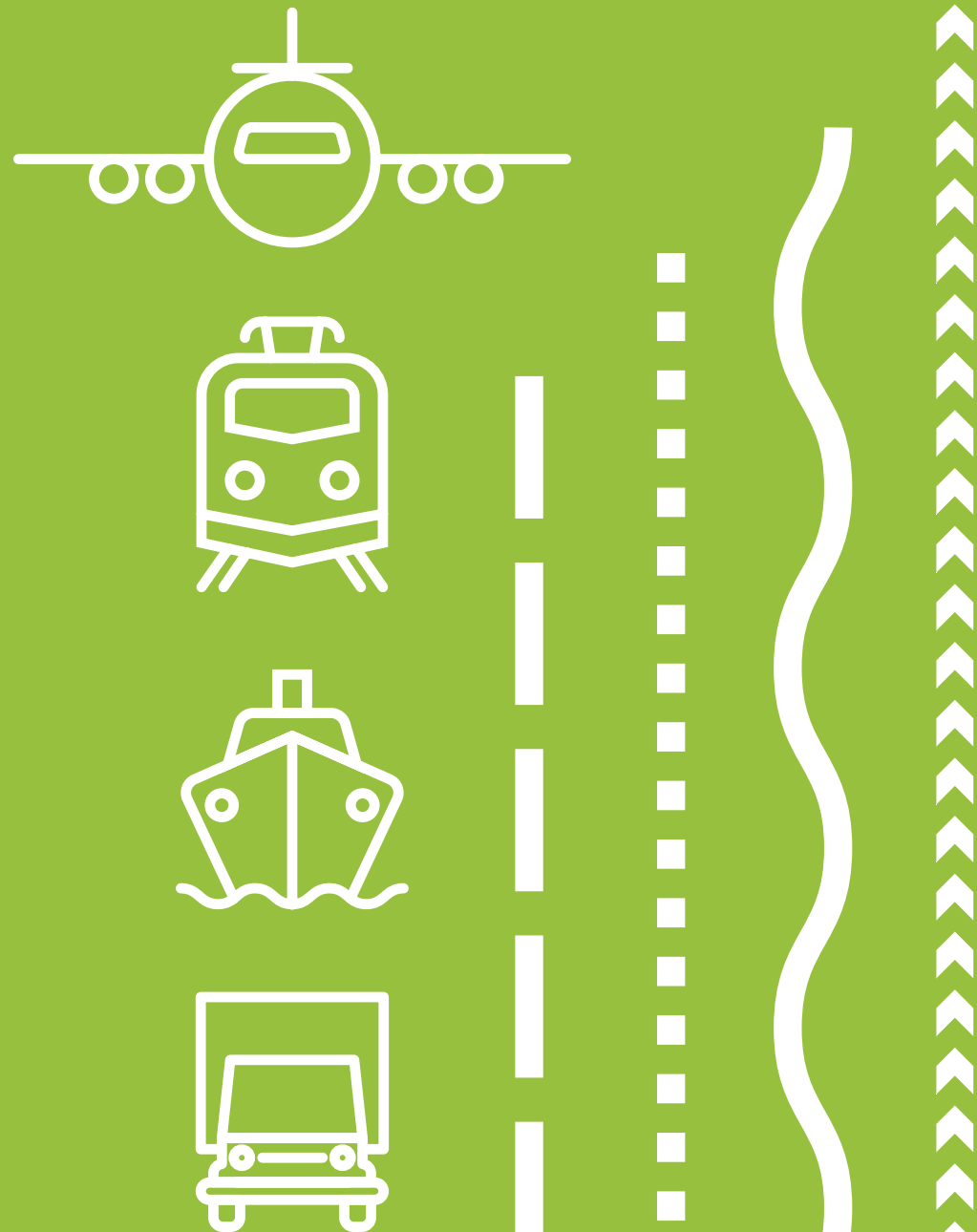


CHART 17

Adaptation of our supply chain gave us a real competitive advantage

Our companys leadership has valued the impact of the supply chain function greatly

The sustainability of our business has been heavily dependent on the effectiveness of our supply chain

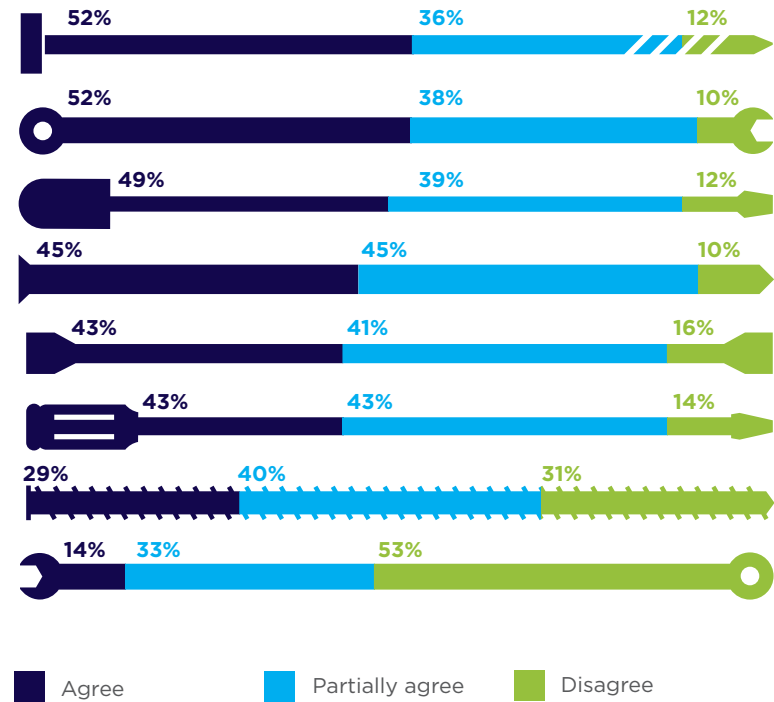
Our supply chain has been well integrated with our suppliers and customers

Our business functions have been carefully designed to align with our supply chain strategy

Our supply chain function has played a prominent role in our business strategy development

A shortage of supply chain / logistics skills in South Africa has had a big impact on our ability to sustain performance

Our supply chain has been inadequate to improve / sustain our performance



Respondents' evaluation of supply chain performance over recent years

→ 5 Creating your Future

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→ This section of the survey was designed to focus on how organisations in South Africa are building a sustainable future. We explored respondents' expectations and sentiments about the future opportunities for their companies and to what degree and in which ways they are preparing to navigate into the future.

***“An organisation’s ability to learn, and translate that learning into action rapidly, is the ultimate competitive advantage”***

*Jack Welch*

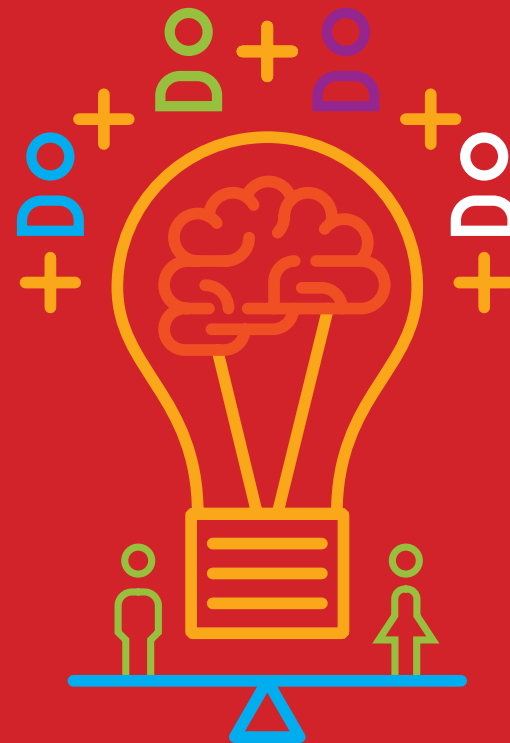
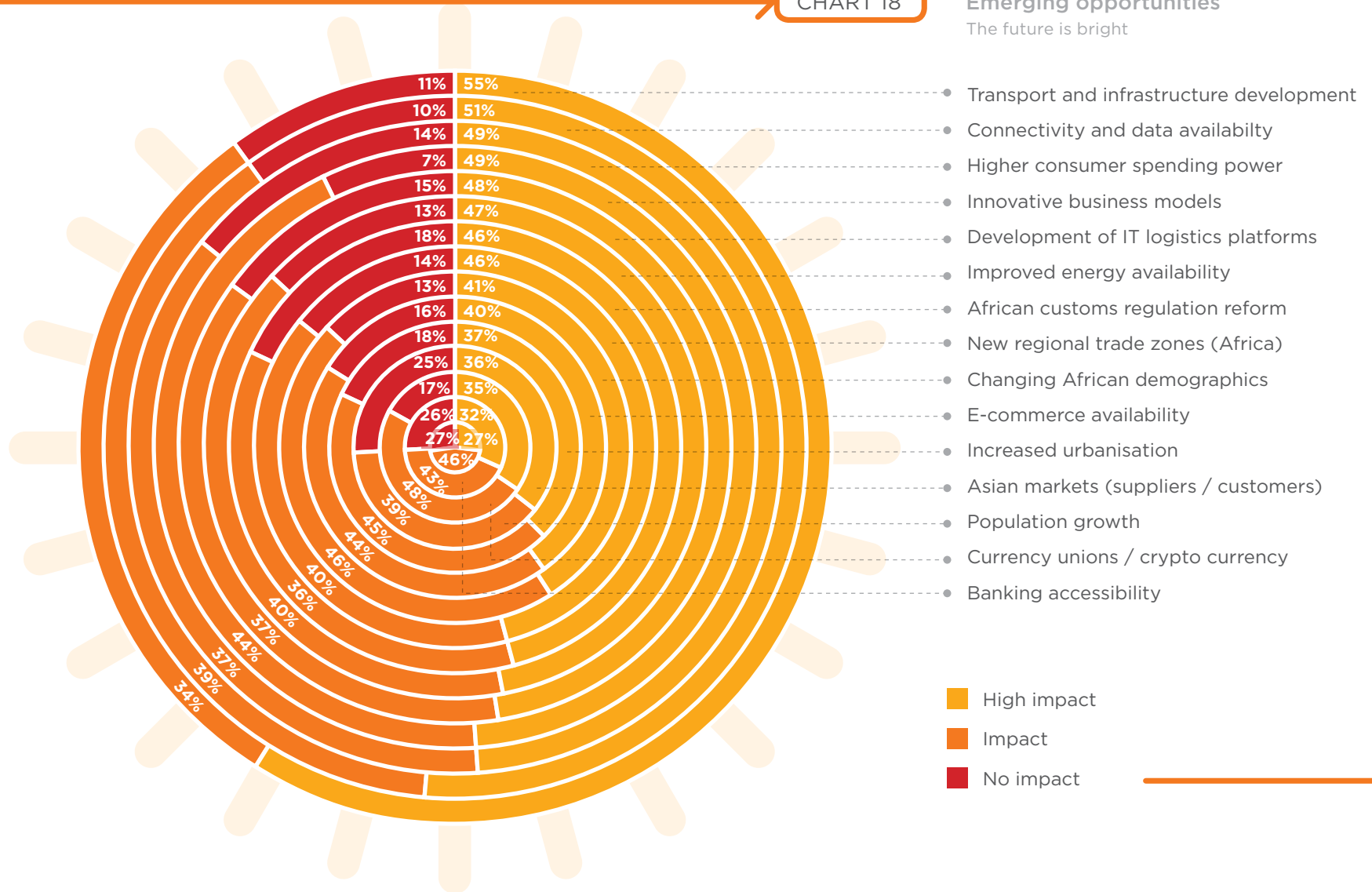
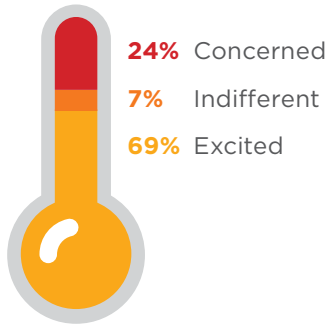


CHART 18

**Emerging opportunities**

The future is bright





### Emerging opportunities

The response to this question is optimistic and shows excitement for future opportunities which could be gained from elements such as new technologies, improved demographics and enhanced business intelligence. The resulting chart also reflects areas of economic and political concern going forward, which are likely to influence the attainment of some of these opportunities in the short term.

Indeed, a bright future will be dependent on several of the key opportunities being achieved simultaneously - for which a thriving investment oriented economy would be essential, together with a stable political situation (both locally and globally).

Transport and Infrastructure ranked the highest in terms of an opportunity to impact significantly and positively. Primarily, this opportunity affects almost every sector of business

enterprise in South Africa as well as its people. Infrastructure development is not only related to transport but relates also to power, water, telecommunications and social structures.

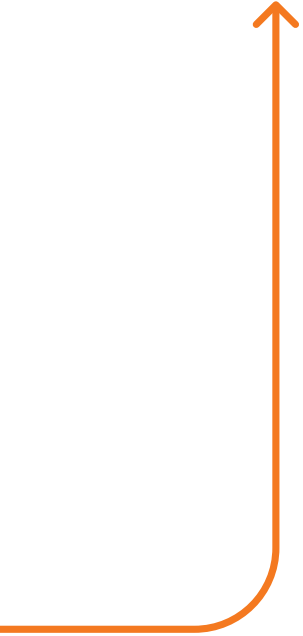
Technology related issues similarly rank highly - whether data and connectivity issues or IT platforms and e-commerce, all of which will facilitate the capture of higher consumer spending. As migration from rural to urban areas continues at a fast rate, appropriate infrastructure, transport and connectivity will be vital.

Each of the elements reflected in the chart create perceived opportunities across almost every segment of commerce and industry.

The response to the perception of future opportunities shows a high level of enthusiasm and excitement from 69% of respondents, whereas 24% expressed their concern,

indicating different levels of optimism and perhaps separating the Foxes from the Squirrels.

A major insight from this year's survey is the frequency of highly positive statements and comments on key issues that are offset by high levels of concerns, as reflected in the chart. This would seem to reflect the level of uncertainty pervading South African business leaders at this point in time; increasing the need to control areas they can to balance their deep concern for elements out of their control. It does, however, say that given the opportunity to overcome the current economic downturn and political issues, the ability of South Africa to hold its own and prosper is in its own hands.



## Concerns regarding the business environment in South Africa

The chart reflects the current status of both economic and political issues which are dominating views and actions in South Africa and are expressed as concerns by respondents. The issues of economic uncertainty, political uncertainty and global economics and the resultant weak and volatile currency situation all rank highly. These concerns are also reflected in the business confidence index.

This highlights the need for a fertile and stable environment for business and economies to thrive and avoid threats to growth and sustainability. Of concern is the inability of commerce and industry to remedy and/or counter these constraints.

All elements under respondents' control appear relatively insignificant compared to the highest rated factors which are out of their control (political and economic). However, when

looking at the rating excluding external factors, the highest ranked concerns relate to skills, B-BBEE codes, intensity of competition, the disruption in industry and emerging new entrants.

***This talks to the need to be more like a Fox than Squirrel - to be more dynamic and entrepreneurial in order to ensure sustainability for the future.***

The concerns that are under the control of respondents and their companies have currently been subverted to a lower ranking of importance and focus. Whilst many of these business and commercially related matters are consistent with concerns expressed in previous supplychainforesight surveys, there are several elements which reflect upon government controlled policies and tactics - ranging from education and

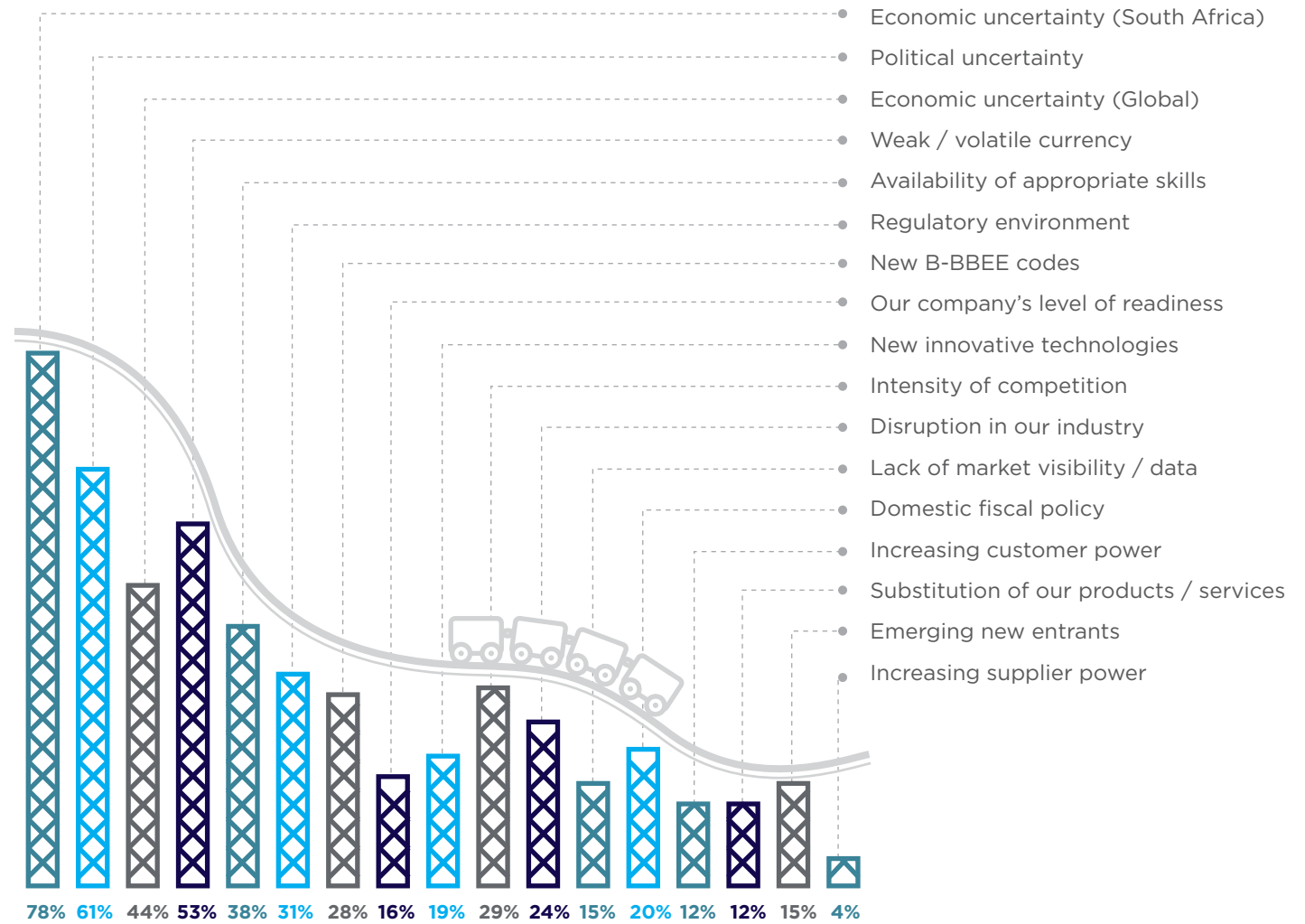
related skills, to B-BBEE, industry disruptions relating to labour practices, regulatory environment and domestic fiscal policy.

Lack of available skills is seen by over 50% of respondents as being non-responsive to changes in the business environment, combined with skills shortage being the highest ranked concern of respondents (after economic and political factors, which were deemed outside of their control).

Education and training is currently falling short of requirements, and in a fast changing world, training and up-skilling becomes an ongoing requirement that business entities need to facilitate to stay relevant and competitive.

This issue urgently requires an action plan involving government, industry and companies. We need to identify if there is a shortage of jobs, or is it a shortage of relevant skills that needs addressing?

CHART 19



**Concerns regarding current business environment in South Africa**  
 (Respondents requested to rank their top 5 concerns regarding business in South Africa)

### Readiness for future opportunities

In questions raised as to the preparedness of respondent companies to meet future opportunities only 35% indicated positively, while 65% responded as being only partially prepared or unprepared. This highlights the uncertainty pervading today's environment and more of a Squirrel than Fox mentality.

It is not surprising as we are living in the "age of innovation" so cannot possibly know what lies ahead, causing both fear and excitement. It also raises the question as to the confidence we and the respondents have about the skills and proven ability to implement, manage and successfully bring to fruition the necessary changes identified in the opportunities ahead.

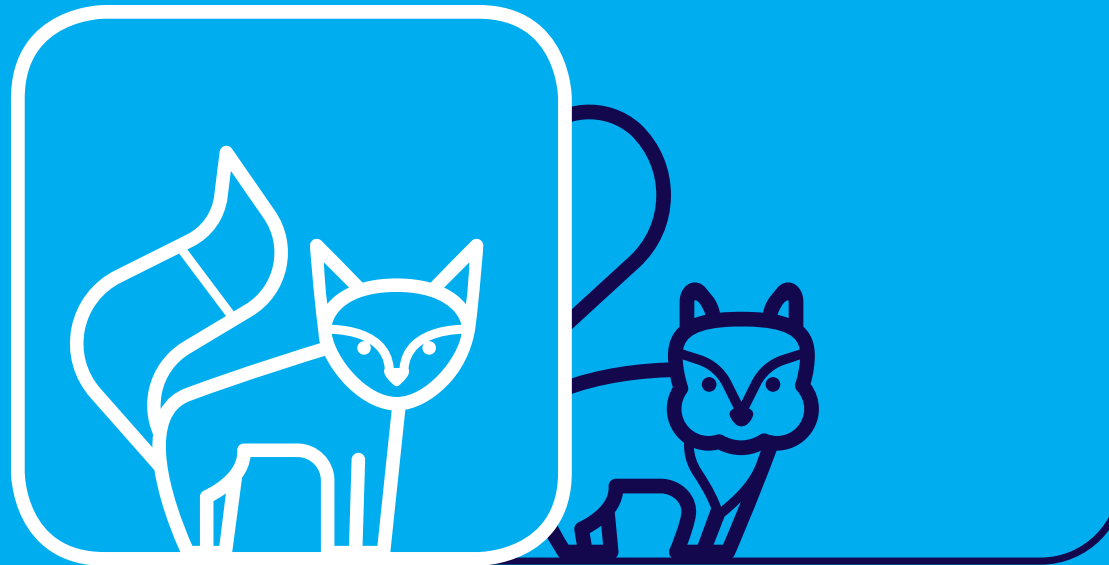
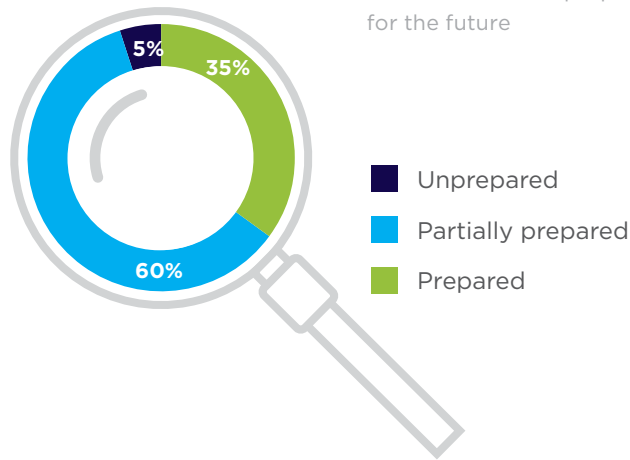


CHART 20

**Readiness for future opportunities**

Perceived level of preparation for the future



It is clear the majority of respondents do not believe they are fully prepared to meet the future or believe their products or services are fully sustainable going forward.

This reflects a negative view and supports the belief that external, uncontrollable issues are suppressing the ability to move forward with confidence.

**Sustainability of products and services**

A key driver for change in any organisation lies in it understanding the reality of the sustainability of its existing products and services. New technologies, alternative products, new innovations and changes in buying patterns are only some of the potential threats to existing products and services.

A key point to note is 11% of respondents feel their industry segment’s current products are potentially unsustainable

into the future and therefore require urgent strategies for change. This includes the FMCG, Pharmaceutical and Health Care and Chemical and Oil sectors.

Only 25% of respondents believe their products and services are very sustainable, but a variation in responses is dictated by the relevant industry sectors, where Mining and Agriculture, for example, believe there is no risk of being unsustainable. However, 56% of the Mining sector believes they are very sustainable against 44% quite sustainable. Only 8% of respondents in the Agriculture industry feel secure about the future.

The Retailers are also a sector believing strongly that their products and services are very sustainable, possibly due to the fact that they deal directly with a consumer market where they are constantly forced to adapt and change.

CHART 21

Sustainability of existing products and services



CHART 22

Sustainability of client base



## Client sustainability

Whilst looking at the sustainability of a business, it is necessary to recognise the levels of support from existing clients and their existing products and services. Also, to examine whether respondents believe their customer profiles will remain or alter based upon their own developments and strategies involving them in new markets, products, services and business models.

Overall responses show 19% of respondents feel their current client base is unsustainable into the future, with 55% and 26% of respondents respectively believing them to be quite and very sustainable. Of particular note was the high unsustainable levels anticipated in Professional Services, FMCG and Chemical and Oil industries. High client retention in Retail and Construction is expected as a result of the ongoing necessity to identify and adapt to meet customers' needs and demands.

The overriding message from this section of the report reflects approximately 60% or more of respondents believe their ability to capitalise on future opportunities is dictated by the need to adapt and change to the potential lack of sustainability of their products and services - and that of retaining existing clients.



### **Areas requiring focus for the future**

Respondents were asked to identify which elements of their business they believed they should focus upon now.

There appear to be two key areas of focus required by respondents to prepare their companies for the future. The first one relates to customer or market-related issues of customer strategy, market intelligence, and data analytics. The second area relates to the importance of skill levels referred to as staff training and development. The development of existing employee competencies

is one strategy to respond to this persistent challenge.

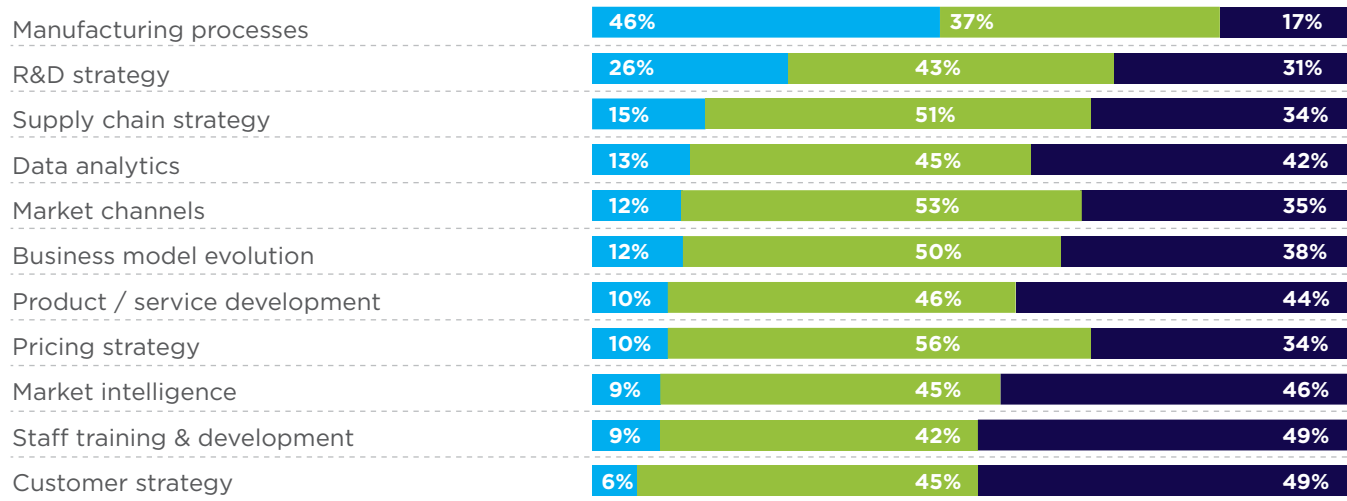
These two issues of customer focus and skills development have been identified in previous years as key constraints and opportunities, and appear to remain high priorities.

The chart reflects a low priority for R&D strategies, but as indicated previously its position may be misleading if the interpretation is for R&D departments or functions as against an entrepreneurial or innovative culture throughout the business - which has clearly been identified as essential in a fast changing business world.

***“Ideas are a commodity.  
Execution of them is not.”***

***Michael Dell***

CHART 23



Areas of focus to prepare company for future development

### Strategic elements planned for the future

In line with previous responses, the strategic elements planned for the future focus on customer facing processes and strategies combined with improved deployment of technology. The remaining identified strategies are shown as being less strongly featured, but each remains important as they are elements which can affect or be affected by the focus upon customers and technology, and the success of those strategies.

The low ranking of outsourcing strategies still reflects a view of South African business leaders to control and manage all elements of their business activity, rather than entering strategic partnerships with external parties whose expertise,

costs and quality of performance may provide added competitive advantage. Such a strategy allows the company to remain focused upon those elements of its business it has the skills, knowledge and resources to manage competitively. Whilst core competencies were always seen as being essential to retain under direct control, many elements such as manufacturing, technology management, logistics management etc. are now more commonly partnered with expertise available.

Non-core or minor value activities will always be outsourced on an arms-length basis. Key functions require a close working arrangement that is integral to any supply chain. In many instances, brand management and customer

relationships are the elements retained, whilst many others are partnered with elements comprising the supply chain. It is for this reason that supply chain management and the relationship of collaboration, sharing and other benefits of working together with the parties involved has grown in importance. The fear of loss of direct control and of higher risk is resolved through strong relationships, common objectives and effective supplier management.

***“There is a palpable tension between the realities of today and the possibilities of tomorrow.”***

***Wayne Visser, Business Frontiers***



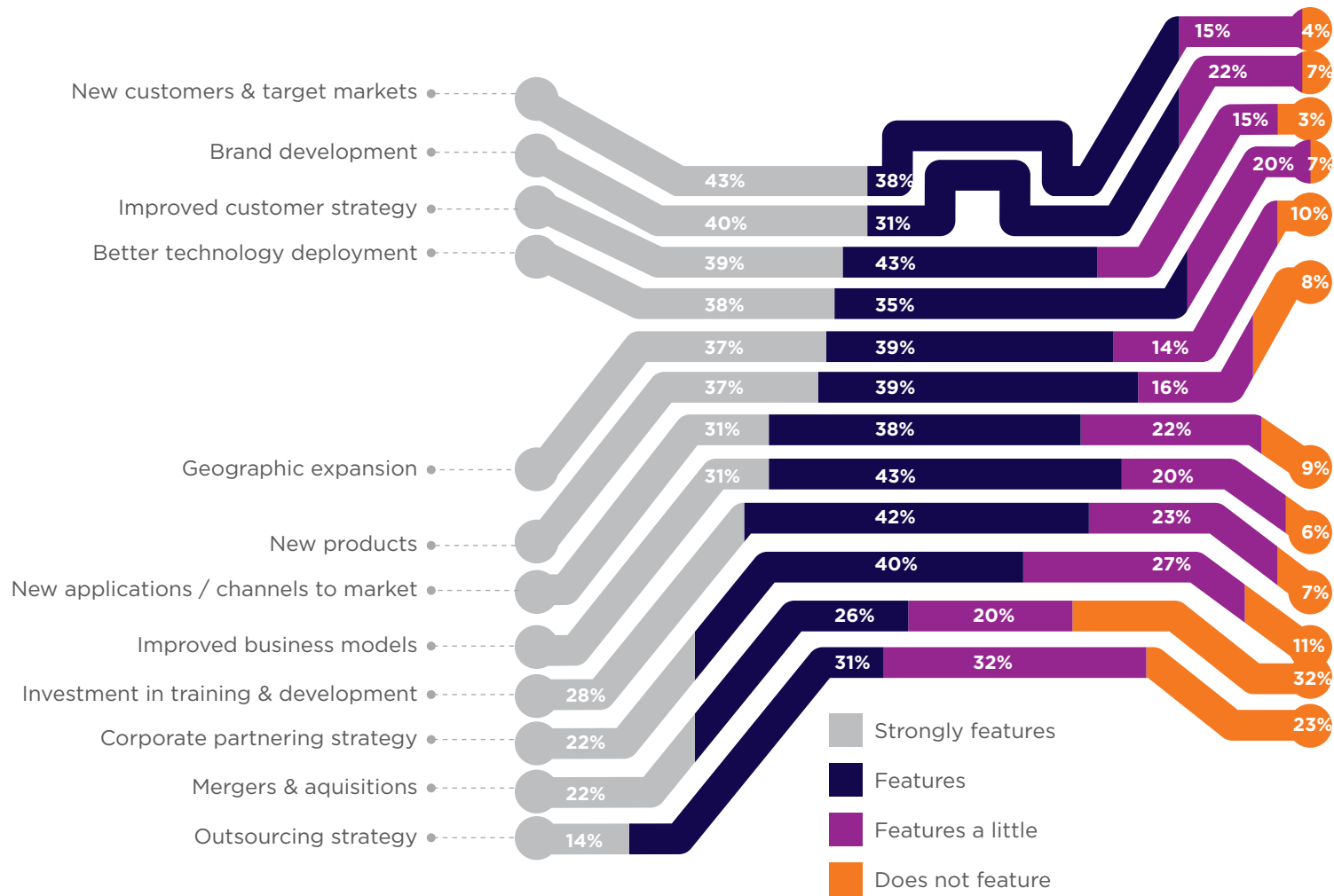


CHART 24

Elements featuring in future strategies

Mergers and acquisitions (M&A) is rated lowly as a future strategy, but with a fast changing world, acquiring new expertise, market segments or economies of scale will play a major part in the economies of the future. There is a perception that M&A activity is costly and full of risk, however companies that are able to make better use of their resources through strategic partnerships and shrewd investments can fast-track innovation and outsmart the competition.

In the area of transport alone, whether by sea, air or land, there are expensive inefficiencies of duplication, lack of full utilisation of assets plus the development of technology platforms which will drive greater rationalisation. The life span of companies globally has reduced significantly over the past years as they

disappear, are overtaken or are merged and grown into more relevant structures.

It is likely that such processes in South Africa will become more prevalent, and perhaps should have a higher level of focus to determine and monitor whether a business venture will succeed in the long term.

### **Expansion into new markets**

Over the last few years, respondents ranked expansion into new territories as one of their top five business objectives. This year, 69% of the respondents said they have plans to enter into new markets, but it appears their expansion plans are still very Southern Africa / regionally focused - this remains in line with strategies indicated in a specific Africa supplychainforesight study in 2012.

The continuing focus of respondents to develop new markets and new customers remains a key strategic factor. Due to the uncertainty in the South African economy, focus remains on developing trading relations with key regional areas, primarily in Southern and Eastern Africa. Most of the respondents are seeking to distribute products or deliver a service prior to entering into partnerships or investing in structures and facilities. This approach offers lower risk and a higher speed of market entry, enabling a company to better understand the market dynamics before committing to a longer term investment as well as an easier exit strategy, should the need arise.

With the current exchange rates of the South African Rand, export opportunities to the

developed world may well provide a greater opportunity for returns and may be a less risky area of focus than the uncertainty relating to trading experiences with some African countries.

Respondents feel the need for a cautious entry into new markets with a high preponderance for distribution partnerships rather than incurring costs or making longer term investments. This would seem to be a prudent approach.

***“The moment you doubt whether you can fly, you cease forever to be able to do it.”***

***J.M. Barrie, Peter Pan***

Key destinations for expansion into new markets

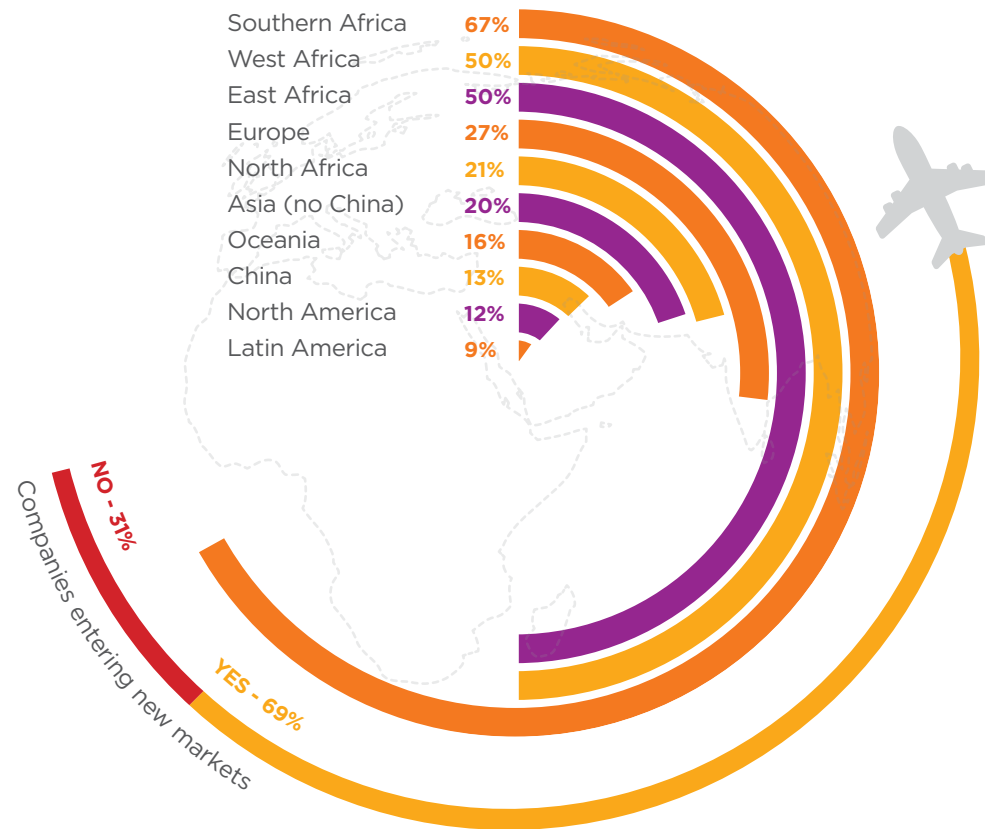


CHART 25

Expansion into new markets

### Role of supply chain in achieving future goals

What is clear from supplychainforesight 2016 is the strong focus on a diverse range of supply chain factors is

delivering significant value to many companies. Universally, the alignment of the supply chain with business strategy has become more critical and is delivering very positive results to South African businesses.

The integration of the customers into the supply chain is recognised as an approach which delivers enhanced customer centricity, enabling improved performance and satisfaction levels. The strong focus on collaborative strategy

is widespread and most likely adopted to minimise cost and reap benefits of specialised skills from partners.

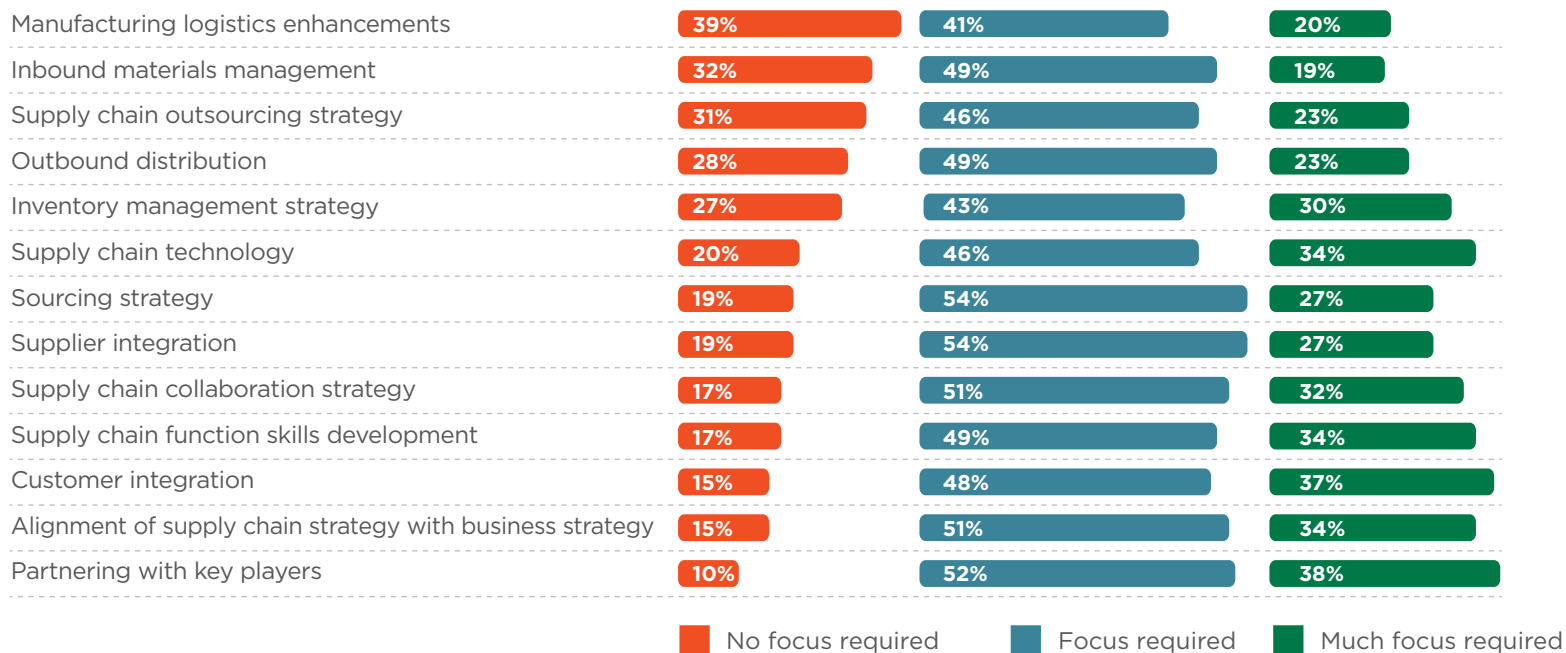


CHART 26

Focus on supply chain elements in achieving future goals



The chart reflects the aggregation of the perceptions of all of the industry sectors with variations, according to the needs of each sector - but in essence, all recognise the need for much more focus in all of the categories. The manufacturing logistics results are somewhat distorted, as clearly not all of the respondents are involved in manufacturing.

Of interest is the greater focus upon partnering with key players, which contradicts the earlier low ranking of outsourcing - perhaps indicating the misconception that outsourcing is different from partnering. Customer integration has raised its profile in recent times and emphasises the importance of customer centricity.

As a general theme, the importance of technology and its valuable potential is seen to be a key area of focus relating not only to processes and systems, but also to the collection of data and the conversion thereof into management information and business intelligence (from which actions and strategies can be devised and implemented).

***“The world as we have created it is a process of our thinking. It cannot be changed without changing our thinking.”***

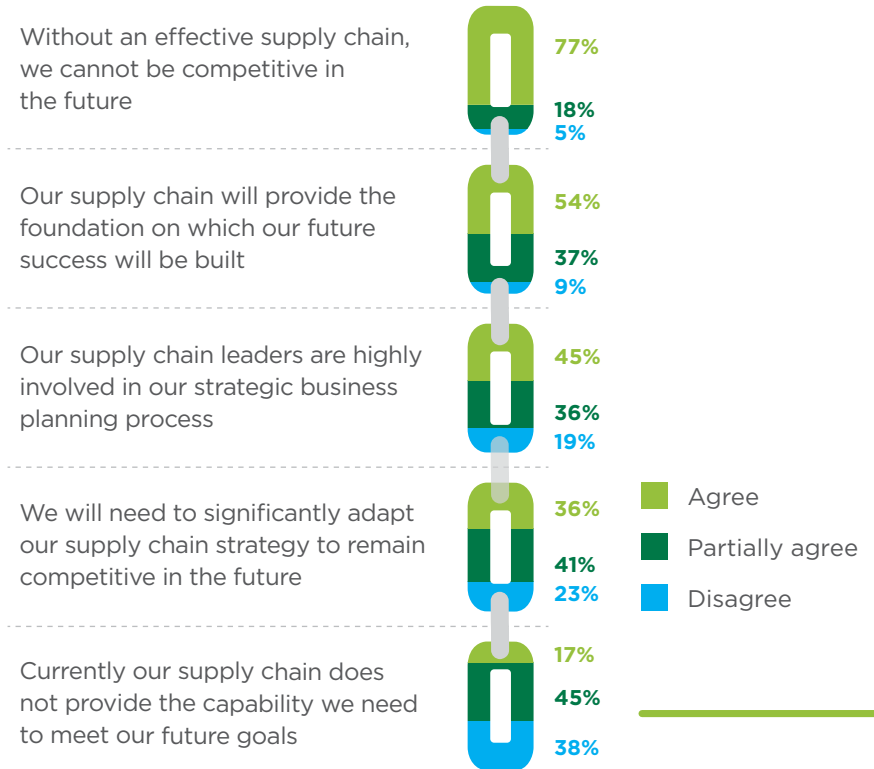
***Albert Einstein***



### Future importance of supply chain

Whilst supply chain management is evolving into an integral part of overall business strategy integrated throughout an organisation, the perception of its importance remains key to competitive advantage, efficiency, effectiveness and sustainability. The following chart reflects the respondents view of supply chains into the future.

CHART 27



Importance of supply chain in company's sustainability


An underperforming supply chain is seen as having a major impact on overall business performance. Many professionals clearly and increasingly see supply chain as the cornerstone of a successful business strategy. Despite this, we see over one-third of the respondents stating their own supply chain is not yet ready to meet their future needs, and a further 45% stating they partially agree with this.

The underlying message is that from a supply chain and logistics perspective, there still remains a lot of work to be done before we see South African businesses gaining the full and real value from their supply chain and business strategies.

***“Chains of habit are too light to be felt until they are too heavy to be broken.”***

***Warren Buffett***





→ ⑥ Learnings and the way forward



**Times of hardship and uncertainty create the environment for leaders to either succumb to the circumstances or use the opportunity to gain advantage whilst others may remain blinded by the headlights into inactivity.**

It is a time to choose key strategies that will create the greatest value going forward. It is however, the correct choice of strategies that ultimately separates winners from laggards. The survey results show many aspects of business requiring new strategies and innovation to maintain current positioning or to take a quantum leap forward. In each instance we have learned that it is not so much about costs and cost control but more about the value to be gained or lost.



With such a wide array of business activities and functions the selection and prioritisation of key value adding strategies is vital. It appears that having too many priorities can be as detrimental as having none, but each strategy needs to be clearly measured and guided to achieve its identified opportunity to gain the anticipated value perceived as being created.

As seen in the survey the level of strategic performance to date has, in most instances, not achieved its anticipated goals requiring a future look at the factors contributing to that failure and identifying the key determinants to success. Identifying, analysing, quantifying, implementing, managing and measuring are the major components of any strategic intent.

Whilst cost cutting is often a frequently followed route to counter downturns, it is in some instances a simple broad strategy that often fails to take into account the value being eroded or gained. All costs incurred are relative to the value they create. The future determination of strategies and priorities is likely to include a better understanding of the costs to serve and where value is created or eroded in each element of the business venture.

A major factor in the future of South Africa and in many other developing countries is the skills shortage and a correspondingly large growing portion of unemployed and more vocal youth. With the advent of technology, mechanisation and growth of service-related industries, this problem is not likely to disappear and in many

instances, these factors may well increase. Commerce, industry and government have a major role to play - needing a clear and workable strategy to manage this emerging trend.

It is now very apparent the concept of supply chain management has taken centre stage and is now seen not as a separate subject but an integral element in any organisation's business plans and strategies. By the same token the management of logistical strategies is being seen as a vital element of implementing business strategies and plans. The planning of logistics is now being seen as needing a holistic approach, supported by the physical implementation of operational functions which move the goods, information and funds up and down predetermined supply chains.

What is clear from the survey responses is that there is recognition of an ongoing need in South Africa for speedy, constant and well-managed change as a prerequisite for sustaining competitive advantage and economic security. It is a complex and stimulating environment in which the status quo is no longer a meaningful phrase. Negative factors surround the business environment, many of which are outside of the control of individual components of commerce and industry; such factors still need to be managed.

Despite the economic and political climate there remains a high level of optimism in South African businesses as witnessed in the survey - this is indicative of a positive approach and the reputation of achievements made to date.

***“Every morning in Africa, a gazelle wakes up. It knows it must run faster than the fastest lion or it will be killed. Every morning a lion wakes up. It knows it must outrun the slowest gazelle or it will starve to death. It doesn’t matter whether you are a lion or a gazelle: when the sun comes up, you’d better be running.”***

***Dan Montano, Economist Magazine 1985***

Whether you are a Lion or a Gazelle, a Fox or a Rabbit, each day as the sun rises, you need to run faster and be smarter.





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