

Supply chain needs to reform or perish

The state of the South African FMCG logistics system is setting retailers up as acquisition targets. Overseas multinational retailers or equity players are already considering buying choice retail businesses, adding value and selling them on. So if you just keep on operating as you did last year, someone is going to take you out. This was the stark warning to delegates at the Consumer Goods Council of South Africa/Effective Consumer Response conference running this week.

If concerted efforts are not undertaken soon to reform the entire supply chain holistically and not silo-style, retailers will fall even further behind in the global environment than they already are - and their current position is not a rosy one, despite the apparent retail boom of the past few years.

Peter Mountford, CEO, Imperial Consumer Logistics and co-Chair of Logistics SA and Brett Bowes, CEO Terranova/Barloworld Logistics Foresight Survey, left no doubt that manufacturers, suppliers and retailers need to launch collaborative and integrated efforts to streamline and manage the supply chain more effectively.

Combined and holistic

"You can only grow this pie together," Bowes warned. "Attempts to fix problems such as shrinkage, security, demand forecasting, lead times and other silo-based problems in isolation will yield less than full value. It must be a combined and holistic approach."

He claimed that FMCG retail bosses leave R7 billion rand on the bargaining table, with the retail profitability in the food industry specifically reaching only 3 - 4%. "A 1999 analysis of the retail value chain quoted a R2.5 billion potential to decrease costs. This is equivalent to a 7.3% price reduction, in effect tripling the bottom line," Bowes stressed. Statistics such as this, and the fact that inventories are running at a waste of R5.1 billion, underscore the fact that the supply chain must be reformed radically.

Retail KPIs lag behind best practices. Lead times into retail outlets stand at 85.6 hours - the global figure is less than half. Out-of-stock figures in South Africa run twice as high as global statistics. Similar percentages apply to almost every other element of the supply chain, demonstrating how archaic and inefficient it is. A global survey conducted by Deloitte showed that companies which grasped the complexity of the value chain and made it optimal were 73% more profitable than standard companies.

Change mindset

But if such research is freely available, why haven't leaders in the FMCG and retail sectors reformed business fundamentally?

"Retailers see the supply chain as starting at the back door," Bowes continued. "They have to change this mind set."

The second problem is complacency. "Just because results are up 25% thanks to the retail boom doesn't mean that they shouldn't examine the cost base - wise leaders will transform while the going is good," he cautioned.

Most retailers improve supply chains only when there are problems and very few undertake continuous benchmarking. "Those who address the supply chain challenge first will soon be streaks ahead of the competition," Bowes claimed. "The first movers will have great opportunities to reduce costs, improve service, gain market share and margins."

Paradigm shift

Mountford explained that an international paradigm shift has taken place, producing a collaborative supply chain philosophy rather than the silo approach to manufacturing, distribution and retail.

"The international environment wants an integrated co-ordination of material from the source to the ultimate user for improved service and cost levels. Research shows that logistics service delivery and stock lead times are the biggest underperformers in South Africa. Logistics providers have to be more flexible, drop sizes should increase, there must be improved customer service and upgrading of skills in selling and merchandising. Inventories are far too high."

One of the problems, Mountford believed, is that South Africa oversimplifies logistics challenges. "Not enough is being invested in training and development, so we are faced with reduced quality of staff, poor systems integration and application and declining safety standards," he commented.

"We need better backdoor efficiencies, extended delivery windows, better staff operational control, smaller back-up areas, and particularly, improved stock management and rotation accompanied by improved pallet and cost control."

South Africa can no longer afford to take things easy and reform or develop when it feels like it. In a globally competitive market, the message is a harsh one: take steps now before you are stepped on.

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