

## **CHAPTER 4**

### **Conclusion and Recommendations**

#### **4.1 Introduction**

The analysis of the questionnaire and the detailed discussion of the results as well as the recommendations are aimed at satisfying the broader planning requirements for the furniture industry as a whole. The recommendations are not aimed at a specific organisation but are intended to serve the total industry. Certain aspects of the research may however be indicative of a problem that a specific organisation is experiencing.

#### **4.2 Conclusions**

In terms of overall segmentation in the furniture industry the market distinguishes between service and product needs. The respondents all felt that the segmentation was adequate. However no respondent agreed that the supply chain was adapted to serve these segments. The supply chain is standard through out the industry. No customization is taking place. The respondents realised the importance of customisation but budgetary constraints prohibited any large scale movement in this direction.

In general all the organisations use some type of forecasting method. The respondents however, felt that many of these forecasting methods were unscientific. 50 % replied that the previous year's actual figures and a 'gut' feel were utilised to determine sales figures and order quantities.

Demand planning was aligned, to a certain extent, with forecasting according to all the respondents. The respondents all replied to the question of whether the policy of openness towards the big suppliers was enforced with a negative. The only exception here was where the retailer had integrated vertically into the supply chain and acquired or started its own furniture manufacturing operation.

Only 25% of the respondents acknowledged that chain wide technology existed and that the system was fully integrated into all facets of the business. The other 75% stated that systems did exist but that they were concentrated on different aspects of the business and in most cases could not communicate with one another. The 25% that acknowledged that a chain wide system does exist felt that although the system was comprehensive that it did not give a clear view of flow of products and information. None of the respondents could measure customer service through their system. Various ways of measuring customer service exist within the separate organisations but these are localised in branches. These systems are also manual and rely on the input from staff, thereby reducing the accuracy of the information.

All respondents discussed channel performing measures and understood the concepts well. It was, however, clear that basic measures were employed and that the measurement of success was only monitored along fairly traditional methods. Supply chain strategy is currently seen as part of the organisation's overall strategy. The respondents did not have a clear view of separate supply chain strategies and saw supply chain management as part and parcel of daily operations.

The supply chain sharing of information occurred only where suppliers were integrated with the retailer. Fifty percent of the respondents fully acknowledged that electronic data interchange (EDI) systems did exist between the organisations and some suppliers. This was more the case in terms of electronic and white goods. The EDI systems are very limited in their function only allowing the placement of orders and the confirmation of orders. The access to data concerning delivery dates, the availability of stock, models, colours etcetera is non-existent. Queries regarding these issues have to be conducted telephonically.

All the respondents acknowledged that outsourcing is used to a greater or lesser degree. Half of the respondents use outsourcing permanently while the other half have gone for either driver empowerment programs or the use of outsourcing during peak periods. The respondents all noted that customer complaints, especially in the lower end of the market, where the quality of goods was not as high as in the more upmarket sectors, was a major problem to contend with. The timely and satisfactory resolution of these queries is paramount for success in the lower end of the market. The result being that supply chain resources were constantly utilised to rectify quality problems.

The respondents all indicated that during the low season cost-cutting and cost data were seen as extremely important. The monitoring of actual levels of stockholding, controlling transport costs, stock turns and damaged and phased-out stock are seen as the most important function of the logistics departments. All the respondents indicated that a specific person is responsible at the highest level for supply chain management. Specific designations differ from logistics executive to procurement and supply chain directors.

The respondents all denied that a specific list, of continuous improvement opportunities for the supply chain exists. Certain respondents, however, indicated that these lists exist but only for the greater organisation. The benchmark toolkit seems to be partial only to those organisations that have set their own standards. No international benchmark or toolkit exists for any of the respondents that define best practises worldwide, and process mapping is non-existent. The term, value constellation, was at first unfamiliar to some of the respondents, however, once the terminology was understood, it became clear that certain efforts were afoot to establish a central hub, with the bigger suppliers. Data warehousing are being instituted by the bigger retailers to assist in the establishment of a constellation.

The bigger retailers acknowledged that their systems were digitalised and communicated via satellites. The smaller operators lacked this refinement and are struggling to absorb the huge costs of installing top end technology. All the organisations have access to the Internet but the practical use is currently restricted to e-mail.

The organisations interviewed agreed that the current supply chain models being utilised were developed with the growth of the furniture retail industry in South Africa. Certain refinements have been made over the past couple of years but the basic supply chain has remained the same since inception. No organisation has adopted a supply chain management model as described earlier in this study. The allocation of funds to specifically develop this part of the organisation is not encouraged in any of the organisations. The supply chain is seen as part of the overall strategy. Any advantages that might occur due to

developments will only benefit the supply chain if the stores in the furniture chain can show a direct benefit.

Currently certain exciting developments are in the offing. Included in these are, firstly, Closed-Loop Supply Chains. Xerox and several other companies now operate their supply chain as a closed loop, feeding back used equipment, replaced parts, and used packaging for refurbishment, re-use, or sale as raw material. In fact, Xerox already generates significant revenue and profit from this recycling phase. When every function is clued into their impact on the recycle stage, we will have an even more efficient and effective supply chain.

Secondly, certain supply chains are designed for flexibility and responsiveness. Today, we analyse and design supply chains for static conditions, forecast demand, current costs, and the like. The ideal supply chain for one set of conditions, however is almost surely not ideal for another. Since conditions are certain to change, supply chain configuration will of necessity be continually revised. Thus, it is better to design for a reasonable spectrum of changes so that the chain can adapt without major upheavals, massive reinvestment, or large scale personnel dislocations. The supply chain concept cited earlier that is configured for fast adaptation to changes in currency values exemplifies this strategy. Design for flexibility will be an important feature in the future.

Thirdly, naturally aligning supply chain components. Today, companies must pay explicit attention to designing the supply chain components to produce the best overall performance. In the future we may be able to equip supply chain components so that they naturally adapt to changes in

other supply chain components, to changes in external conditions, and to substitution of one component operator for another (such as changing a supplier). Supply chains, like many organisms in nature, will survive through their ability to adapt.

This picture of the supply chain as a set of interacting functions being managed in co - ordination to bring out the best overall performance explains the goal of integrated supply chain management. The logical progression that was described of the growing capability to manage more complexity, leading from the two stage physical distribution chain, to today's six- or seven- stage chains, to tomorrow's ten plus stage supply chain reveals where we've come from and where we're going. The rocket science tools used in this journey do not obscure the fundamental logic of supply chain management. The dynamic role of technology developments in producing continual supply chain change is now apparent. The critical role of IT advances in making more complex supply chains manageable is clear. Finally, brought out the challenge and excitement of supply chain management.

### **4.3 Recommendations**

The following recommendations will assist the furniture industry in achieving supply chain excellence:

- a) Improved and more detailed segmentation of the market is essential. Customers are demanding better and more exclusive service. The furniture retailer that will be able to supply fast and efficient service in terms of deliveries to customers, free, fast and friendly assembly and service will have the competitive edge. The

financial advantages will be higher stock turns and less customer complaints after delivery has taken place. The keyword would be 'one time delivery', fore - going the tendency in the market to do partial deliveries, wrong deliveries and delivery of goods below the acceptable quality standards.

- b) The importance of previous experience is invaluable in any organisation. It is, however, of cardinal importance that forecasting techniques are utilised to their full potential to enable organisations to accurately plan demand. In today's extremely complicated marketplace the simplistic use of forecasting by comparing the previous year by year or month by month is totally inadequate. Consumers and their demands are becoming more and more complicated. The opening of the South African market to international competition and the slowdown in furniture sales are indicators that forecasting is not the simple exercise it once was. Scientific techniques have to be implemented to ensure accurate demand forecasting and enable the retailers and suppliers to adapt strategies.
  
- c) The accurate forecasting of sales will also assist in reducing the mistrust that exists between suppliers and retailers. Suppliers currently view big orders with scepticism and in most cases initially produce less than the stated order. The reason being that the order will most likely be reduced or cancelled before delivery date. The suppliers in the South African market experience this tendency daily and have developed techniques to minimise the impact on their organisations.

- d) Technology is currently the big equaliser in the furniture industry. Early investment in the best technology available has certainly assisted the big players to achieve prominence. Organisations who lack a chain - wide information system will not be able to improve or re-engineer the supply chain. Supply chains are extremely complicated and require huge amounts of system capacity in planning and executing improvements. In today's complicated marketplace with consumers extremely price sensitive, daily, if not hourly, information is needed. Informed decisions have to be made quickly and without the correct up - to - date information this will be impossible. Furniture retailers that have not yet realised that the only road to success is via technology could face huge problems as the rest of the market moves ahead.
  
- e) Furniture retailers will have to develop unique methods relevant to the South African business model to measure performance across the supply chain. The challenge would be to monitor and measure the supply chain constantly. Corrective and improvement measures can then be taken promptly to ensure optimum productivity.
  
- f) The most daunting phase for the furniture retailers would be the integration with main suppliers. This would mean the sharing of critical information, the development of joint procedures and the assurance to the supplier that long term stability and relationship are important. For a long time suppliers in the South African market were badgered, scorned and absolutely forced into unprofitable situations to ensure acceptable gross margins for the retailers. Suppliers of furniture and appliances are at high risk and



the current reduction in suppliers is reducing competitiveness in the market, assisting in the formation of monopolies. Mutual respect and long - term relationships will benefit both the retailer and supplier and ensure economic wealth for both.

- g) The question as to whether outsourcing is the better of two evils will remain unanswered at this moment. Not enough evidence exists to either refute or confirm claims that the one process is better than the other. Organisations will have to decide which is the better system for them and design the supply chain around this strategic issue. It is expected that in the United States outsourcing will increase dramatically, but this is currently only speculation. Many companies prefer to keep the strategic advantage of controlling the supply chain and decline to out-source.
- h) A constant and never-ending focus on supply chain improvements should assist the leading furniture retailers to weather the storms and grow revenues and reduce costs. Organisations have to develop new and innovative ways to manage the most complex part of the business, namely, the supply chain. Retailers must develop supply chain models suited to South African conditions, either by adapting current models, creating hybrids of these models or by developing new models from a zero base.
- i) To assist organisations in developing and re-engineering supply chains it is important to note that funds will have to be budgeted for. Supply chain development will not flourish in a barren budget. Co-operation with big suppliers will also assist retailers to dilute costs in supply chain development and ensure that Strategic Supply

Chain Management are seen not only as a means to reduce capital costs but also as an enabler of growth.

#### **4.4 Conclusion**

The supply chain management revolution is in its early stages. The basis of its development, propelled by man's steady progress in managing ever more complex systems aided by technological advances, is evidence enough that supply chain management has a long future marked by continuous, sometimes breakthrough, progress.

Integrated supply chain management is a straightforward concept made possible by modern science hardware and software technologies. These technologies enable the integrated design and co-ordinated management of the multiple functions that transform raw material to finished products delivered to the customer at the right place and time. Supply chain integration is a powerful concept because it can simultaneously reduce costs, improve service, and increase revenues. Supply chain management has developed thanks in large measure to information technology tools that help managers deal with ever greater degrees of complexity. The reach of supply chain management has expanded dramatically in the past decade and will continue to expand, encompassing more functions and more decision factors for decades to come.

Supply chain essentials and the basic interrelationships are eminently applicable from the domestic food supply chain serving our homes to the worldwide manufacture, distribution, consumption, and recycling of consumer products or high-tech medical equipment.

But at the same time, supply chain management is difficult. The key elements are constantly changing because of technology developments, dynamic world economics, and marketplace shifts. Historically independent work groups must come together as teams focussed on the total supply chain performance, often at the expense of their individual work group performance.

Since the pace of change never slows but only increases, supply chain professionals need to keep focussed on some key success factors. Finally, a list of key success factors are:

- Always keep foremost the needs and desires of the end customer.
- Measure, measure, measure to make quantitatively based decisions.
- Communicate, communicate, communicate all through the total supply chain.
- Design flexibility into the supply chain for rapid response to changing conditions