CHAPTER 1
Introduction

1.1 Introduction

In recognizing how critical the supply chain is to overall corporate success, companies have invested significantly in research to improve their supply chain processes and systems. Forty two percent of companies are unsatisfied with the results that have been achieved and only 27% of companies believe their performance has been elevated beyond the industry norm, according to Kilpatrick.(1999:7)

The focus of business management over the past fifty years has been to obtain maximum return for an organisation's stakeholders in the organisations that they service. Management has done this in various ways. The 1950's, were known as the production era, where focus was on optimizing productivity. The 1970's saw strategy as the flavour of the decade, the 1980's and 1990's started focussing on the customer and as a result quality and value was brought to the forefront. The change in focus resulted in business management being constantly aware of certain parts of the organisation. The latest change to quality and value as the basis for business principles has caused boards and management, to reassess the supply chain and it's myriad of extensions. (Kast *et al:* 118)

1.2 Market Analysis

The furniture industry in South Africa has, in the preceding decade gone through the turbulent high and low cycles experienced in the retail industry. The smaller independent furniture retailer is starting to disappear and big conglomerates are at the order of the day. The major players in the industry are the JD - Group (Joshua Doore, Russells, Bradlows, Giddy's, Score, Price & Pride), Relyant Retail (Geen & Richards, Furniture City, Lubners, Fairdeal, Melody's, Early Bird, Beares, Savells, The Bargain shop) and Ellerines (Town Talk, Ellerines, Furn. City). Between these groups they hold 80% of the furniture business in South Africa. (JSE Handbook: 165, 191, 245)

The tendency to consolidate did not only happen to the retailers but also to the suppliers. The Cornick group amalgamated with Furncol to form the biggest supplier of furniture and appliances in Africa and has recently been taken over by Steinhoff, a German conglomerate. Certain suppliers however, have not been so fortunate and were forced into liquidation. Defy and Kelvinator being the unfortunate victims and Fridgemaster struggling to keep its head above water.

These tendencies as well as a more open economy and a slow down in economic growth has resulted in furniture retailers being far more cost conscious. As a result operational efficiencies have increased and cost effectiveness heightened to ensure acceptable returns for shareholders.

The one major part of the furniture industry that does not lend itself very easily to optimisation is the supply chain. Due to the nature of the products, i.e. lounge suites, dining room suites etcetera, being bulky, unwieldy and difficult, if not impossible, to standardise especially in terms of packaging. The supply chain in the furniture industry adapted to the special requirements of the products. The flexibility of this supply system due to the nature of the industry has resulted in a myriad of chain configurations. These configurations differ from extremely effective too utterly uneffective.

The material that is presented below will illustrate that the South African consumer has adapted to an ever-changing marketplace. This change in private consumer spending impacts directly on the furniture and appliances sectors of the market. The ever-changing consumer spending impacts, directly on the profits of the organisations in the furniture industry. The lower consumer spending translates into a loss of sales for the organisations in the industry. To counter the loss of topline earnings organisations then started to focus inwards to optimise resources, improve productivity and cut costs. Table 1.1 clearly indicates that total domestic spending increased by 2,5%, but spending on Furniture and Appliances only by 2,2%.

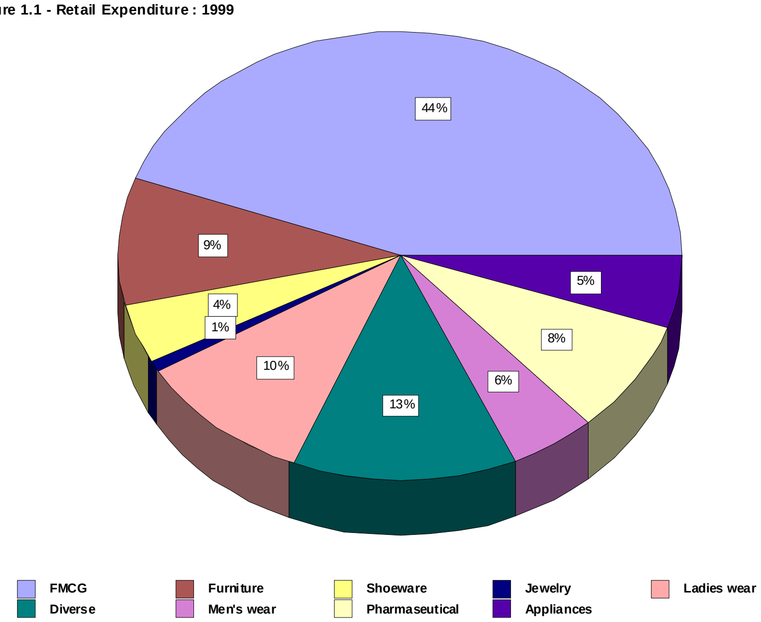
The beleaguered South African consumer has undergone radical changes in terms of spending patterns over the past decade. Although an improvement in interest rates has seen an improvement in disposable income, the introduction of cellular phones, electrification and The Lotto, and casinos etcetera has seen a marked decrease in consumer expenditure in traditional retail markets. The current exorbitant price of fuel is an excellent case in point.

Table 1.1 - Private Consumer Spending	
Yearly Average, 1992 - 1999	% Change
Medical and Pharmaceutical Products	+ 8,4 %
Transport & Communication Services	+ 7,2%
Clothing and Shoe - wear	+ 4,9%

Petroleum products	+ 4,6%
Medical Services	+ 4,6%
Entertainment en Educational Services	+ 3,5%
Domestic Electricity Consumption	+ 3,4%
Recreational Goods (Sport etcetera)	+ 2,7%
Furniture & Appliances	*+ 2,2%*
Domestic Services	+ 1,9%
Food & Liqueur	+ 1,8%
Domestic Consumables	+ 1,8%
Relaxation Items (Newspapers etcetera)	+ 1,1%
Motor Parts	- 0,4%
Motor cars	- 0,8%
Entertainment Goods (PC's, TV's etc.)	- 1,1%
Total Domestic Spending	+ 2,5%

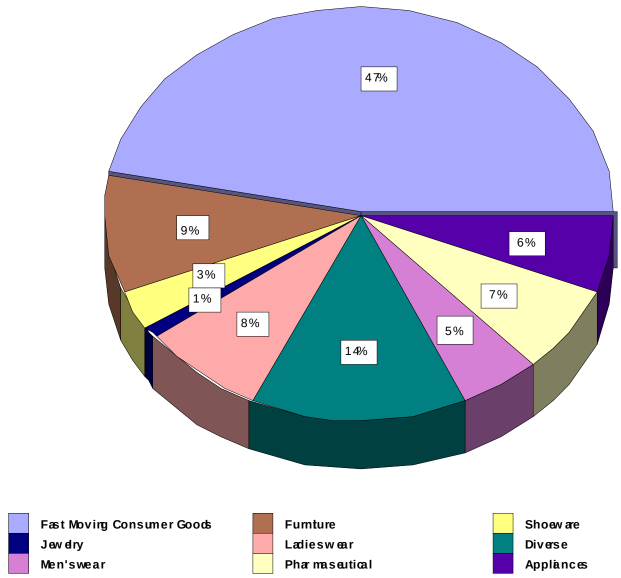
(Reference: Finansies & Tegniek, August 2000, p 13)

Figure 1.1 - Retail Expenditure : 1999



(Reference: Fleming Martin, Retailer Report, August 2000)

Figure 1:2 -Retail Expenditure : 1990



(Reference: Fleming Martin, Retailer Report, August 2000)

Figures 1.1 and 1.2 two clearly illustrates that the furniture and appliance markets are a matured and even shrinking markets. In 1990 furniture and appliances shared the market with a 15% holding. During 1999 this market share has dropped with 1% indicating an ever shrinking market share for durable goods compared to clothing and shoeware.

1.3 Scope of Study

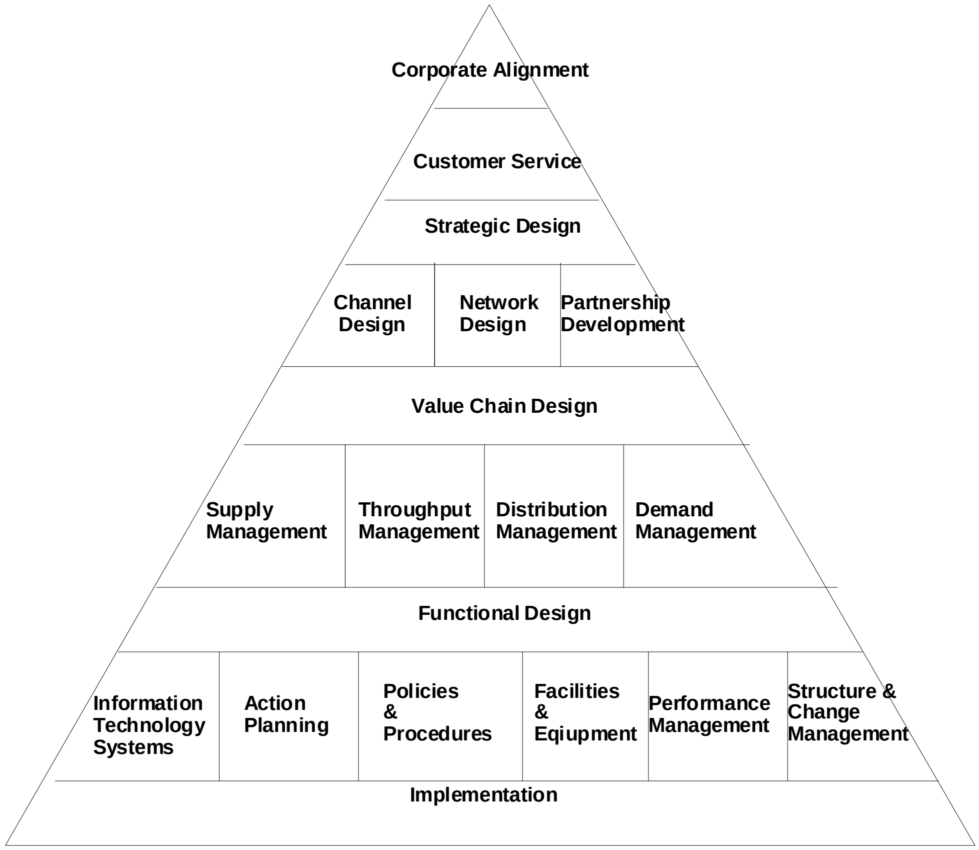
The previous chapter clearly indicates that the furniture industry in South Africa is being marginalised. Consumers are spending more on other expenses at the cost of furniture purchases. This reality is the main reason for the research project. Furniture retailers will have to be more innovative to survive the decrease in market share together with achieving high expectations from investors.

Various issues in the furniture industry can be analysed to improve the operational efficiencies of the organisation. The scope of this study will, however, focus on the supply chain. The supply chain is currently a hot topic all over the world and executives are constantly searching for ways to improve the supply chain. As research will show, certain broad issues can be identified in the industry. These are:

a) The supply chain is currently managed in as many different ways as there are products, with standardization being the exception rather than the rule.
b) All the partakers in the supply chain are not involved in the decisions or the process.
c) The standards of measurement of effective supply chain management differ from organisation to organisation.
d) Hidden costs are incurred in inefficient ordering processes, transportation, time losses, over and under stock holdings, damaged and redundant stock.

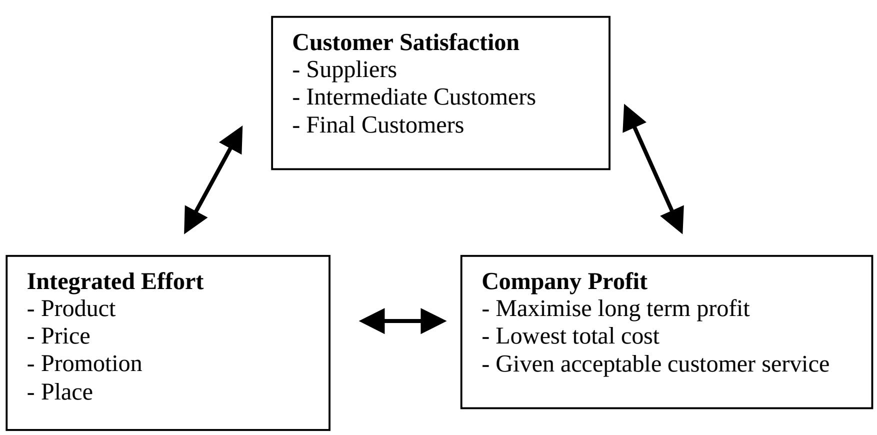
The primary goals of the study will be to provide guidelines for the proper design and implementation of a supply chain for furniture retailers in South Africa. The design and implementation strategy must be of such a nature that it can be applied by any furniture retailer in South Africa. Secondary goals include a generic supply chain model for the furniture industry, ensuring that the model is practically oriented and suited to

Figure 1:3 - An Integrated Logistics Strategy



(Source: University of Pretoria: Chair of Logistics: 1998)

Figure 1:4 - Marketing / Logistics Management Concept



(Source: University of Pretoria, Chair of Logistics, 1998)

South African conditions, to enable cost reductions to be achieved through the model, resulting in improved return on investments for stakeholders.

To design a meaningful model one must consider the complete picture in which an integrated logistics strategy has to operate. The Chair of Logistics at the University of Pretoria has developed the model in figure 1.3 to illustrate the process. Figure 1.4 clearly illustrates the relationship between these support blocks and their importance to an organisations growth and prosperity.

Robert E. Sabath and David G. Frentzel (1997:20) state that corporate downsizing and re- engineering over the last decade have helped the United States and other multinational companies to re - establish their global competitiveness. During this period, the most popular route to increased profitability was to cut costs rather than increase revenues.

Logistics professionals played key roles in improving the cost competitiveness of their operations across the supply chain by adopting new strategies, closing warehouses, trimming inventories, outsourcing nonessential services, and installing powerful forecasting and material-control systems. Cost cutting across all parts of an organization, however, can be taken to the extreme. It can lead to a vicious cycle of plant closings, layoffs, and expense reductions ultimately leading to a gutted, weak corporation that is unable to sustain profitability for very long.

Sabath *et al* (1997:23) also concede that, with lean and healthy operations as their foundation, progressive companies are focussing intensely on growing revenues, thereby breaking the downsizing death spiral. Instead of merely striving to meet annual cost-reduction targets, managers at these leading companies are repositioning the supply chain as an enabler of growth. They are speeding the flow of new products; accessing new markets across the globe, developing new channels of distribution; customizing services to micro customer segments, and forging new value-added relationships with suppliers and customers. The new standard for the supply chain is value delivered, not cost elimination.

Sabath *et al* (1997:23) write that it has become clear that cost cutting alone is not a viable long-term business strategy. Few companies can shrink to greatness. Chief Executive Officers of United States corporations, were asked to identify their biggest challenges where growth was named as the number one priority.

A company's ultimate success can be measured in terms of its total market value, the research done by Sabath *et al* (1997:24) clearly shows that companies that have charted successful growth strategies have been rewarded handsomely. Companies that focussed on cost cutting, on the other hand, did not fare nearly as well.

1.4 Research Methodology

The research for this project was conducted firstly by an in depth literature study. Secondly, and in support of the theoretical research a questionnaire together with personal interviews were done with certain key executives in the supply chain of major furniture companies.

This information was then processed and certain suggestions pertaining to the basic supply chain models are suggested. Chapter 3 discusses the research methodology in detail.

1.5 Summary of Chapters

The research starts with chapter one describing the changes and pressures within the furniture industry. The need for supply chain restructuring is discussed in this chapter together with the primary and secondary goals of the research.

Chapter 2 reviews the relevant literature. Furniture industry literature is a scarce commodity and extensive use is made of American resources. Different supply chain models are presented, the importance of re-engineering is discussed and methods for organisations to evaluate the success of new and innovative techniques.

Chapter 3 discusses the research methodology in detail. Chapter 4 analysis the information from the questionnaire and interviews and recommendations are also presented in this chapter

1.6 Conclusion

Sewell (1999:50) wrote that increasingly, supply chain management is being recognized as a key tool for delivering high shareholder value, which is largely driven by profitability and return on invested capital. Successful supply chain management strategies deliver significant value on both fronts.

When improving customer service through successful supply chain improvements, organizations can increase market share and gross margins. Supply chain strategies also drive down the costs of transportation, warehousing, material handling and distribution, again increasing profitability. In terms of freeing up capital, supply chain management lowers inventories, shortens the 'order-to-cash' cycle and reduces physical asset requirements.

To accelerate the gains earned by current supply chain management strategies, corporations will need to collaborate with supply chain partners to synchronize operations. Such synchronization means the organization can derive benefits from the whole chain, rather than just from the portions in its direct control. This requires moving from beyond simply aligning and integrating functions internally to co-ordinating supply chain activities between companies. It becomes vital for organizations to plan and execute supply chain activities across the supply chain, from level one and level two suppliers, to wholesalers and retailers, and finally, to the end-consumer according to Kilpatrick (1999:22).