Supply Chain Challenges in Emerging Markets:

Key Issues in Logistics & Supply Chain

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In the developed world, key trends revolve around big data, demand planning, collaborative relationships, process integration and near shoring (transferring business to nearby countries). While demand planning, process integration and collaborative relationships are very relevant to African supply chains, the development stages differ substantially.

Big data refers to analysing large amounts of information. For example, in developed economies such as the US, improved demand planning is increasingly driven through big data and new approaches to better forecast demand. Big data could be employed to better manage delivery, such as analysing traffic and truck GPS signals to determine the exact time of delivery, and therefore make better decisions. However, African supply chains are far from drowning in data.

Many organisations across the continent are still in the early stages of determining customer demand and implementing relevant Enterprise Resource Planning (ERP) software. I often encounter companies and business units in which the focus is more on automating back office functions (think 1990s ERP in the US) than on managing relationships with customers and suppliers.

A number of African businesses are also increasingly evaluating mid-tech solutions and identifying the appropriate technology (such as mobile phone communication) for their operations. In addition, manual labour remains relatively cheap, and for many organisations manual processes can save money.

When assessing warehousing and transportation challenges, the key issues are often more basic. Some examples include finding or constructing suitable warehouse space; investing in material handling (e.g. forklifts) and storage equipment like racks; outsourcing distribution and warehousing to a small but growing network of third party logistics companies; improving transportation management through palletisation and improved fleet maintenance and tracking; and improving network design, often through manual surveys and mapping.

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Just like their developed market counterparts, African companies are striving for
increased visibility, but often their goals remain focused on the internal organisation rather than suppliers and customers. Companies are driven to reduce inventory and cost through better information. However, this information is a mix of electronic and paper-based systems. In supply chains in African businesses, the challenge is not big data, but simply data.

Some issues to supply chain issues to consider:

**Demand Planning** – Frontier markets have difficulty forecasting demand, dealing with fluctuating costs and often depreciating currencies. In some cases importers might also struggle to get their hands on foreign exchange, resulting in a fragile domestic supply chain. Often, the availability of certain stock keeping units (SKUs) can fluctuate dramatically.

**Poor Visibility and Limited Information Sharing** – Supply chains often lack visibility in frontier markets. Often organisations lack the required information technology infrastructure and management finds it difficult to keep track of stock levels and share information with partners in the market. In many operations hardcopy paper flow will remain and will likely coexist with information technology systems. Some markets function more like a “bazaaar economy” with a lack of transparency when it comes to prices and quality.

**Counterfeit and Parallel Imports** – Counterfeit and parallel imports remain a major concern in many markets. Lower income developing economies remain a dumping ground for many importers and exporters that buy expired (or close to expired) products from the US and European retailers, and sell it at reduced prices to intermediaries. Parallel imports also provide additional headaches. For example, in Nigeria it is not uncommon to find the same product line, sourced from three different manufacturing locations (e.g. US, Turkey & UK).

**Corruption and Red Tape** – Crossing land borders may demand some palm greasing and many frontier markets are well represented at the bottom of Transparency International’s Corruption Perception Index (CPI). Dealing with port officials can sometimes be challenging and many countries struggle with high levels of bribery and corruption. Deciphering the regulatory environment can take time and bureaucratic red tape can leave many executives ready to board the first plane out of the country.
Supply Chain Risks – Frontier markets provide additional supply chain risk, ranging from conflicts to terrorism which leads to major disruptions in the supply chain. The supply chain risk in one area can easily affect the whole supply chain (e.g. Cacao in West Africa’s impact on chocolate supplies). The nature of risk is constantly changing as the recent Ebola crisis in West Africa and the impact the Islamic State of Iraq and the Levant (ISIS) has on the Middle East, including the risk of potential attacks on cargo ships in Bab-el-Mandeb and Suez Canal.

Territory and Road Infrastructure – Frontier markets often struggle from creating infrastructure. In some cases a large share of the population might not be linked to any major road network (e.g. Ethiopia). Mountainous terrain also has an impact and often cuts off communities and cities (e.g. Tajikistan, Papa New Guinea) from major markets. In some countries there is an absence of all-season roads, isolating cities and villages during the rainy season. In urban environments poor infrastructure can also have an impact, where smaller shops (e.g. small groceries) are sometimes situated in congested areas, with narrow gravel roads that delivery trucks can’t access.

Lead Times – For organisations moving goods in and around frontier markets, the long lead times and costs are two of the biggest challenges for almost every industry. Landlocked countries are particularly impacted. For Africa (e.g. Ethiopia) and Central Asia’s (e.g. Uzbekistan is double landlocked) landlocked countries, the lead times are significantly longer. For example, in landlocked Burundi it takes up to 71 days to import goods from any of the other East African countries.

Fragmented Markets – Modern trade in many frontier countries is still in the very early stages of development. For example, the contribution in most African countries is often in the low single digits. Moving goods to a large fragmented outlet base is difficult and costly. In a fragmented retail segment, companies struggles to achieve economies of scale on both the retail and supply sides.

Cash Flow and Space Issues of Small Outlets – Small outlets (e.g. small grocery) often have limited cash flow and, in some cases, limited space to stock product. They often run out of stock and require an intermediary such as wholesaler, to break bulk.

Collaboration and Intermediaries – Finding the right distribution partner can be a challenging undertaking. Distributor footprints are often limited to wholesale and
key account outlets. Collaborating with partners can be difficult, too often critical information is only available at one level and not shared with the stakeholders.

Revolving Outlet Base – Often the outlet base remains fluid with new shops opening and closing. Seasonality also plays a part. For example, some outlets might stop selling cold and frozen goods during the rainy season (e.g. Bangladesh). Furthermore, not all shops or selling points are permanent structures and some are set-up as temporary sales points to sell a limited number of stock keeping units (e.g. mobile phone cards).

Organised Third Party Logistics (3pl) and Skills Gaps – In some frontier markets, organised 3PLs revolve around independent transporters with limited number of vehicles. Many warehouses for rent are also poorly designed, with poor yard management, ventilation and equipment. Finding a professional warehouse operator can be a daunting experience and often supply chain professionals have received no formal training.

While overcoming these challenges seem daunting, a number of organisations have made great inroads in defining their supply chain strategies in frontier markets. Working in these markets requires patience and a continuous improvement mindset, where organisations need to be willing to invest in people and to take time to understand market conditions and design processes. As the saying goes, if it is easy to conduct business in a place, it is properly too late to enter.

As the report highlights there are significant challenges that commerce and retail companies need to factor in when investing in the continent. There is significant business to be won in companies get it right. Unilever, Coca Cola and SABMiller are successful examples. However careful planning is essential to tapping into Africa’s consumer base.
Thank you for reading!

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