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The State of Logistics in South Africa
A review of the past five years

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INTRODUCTION

The annual State of Logistics survey for South Africa (SOL) is now in its fifth year of production and the next report titled "Logistics value and cost drivers from a macro and micro economic perspective" will be released in March 2009.

Each survey has a specific theme around which the content is structured and provides insight into the logistics and supply chain issues on a macro and micro-economic level. The first survey released in 2004 was aptly titled "The case for measurement and revitalisation of basic logistics infrastructure in our dual economy". The 2005 survey focussed on "Defining research priorities for developmental logistics" and in 2006 the theme revolved around "Implementing logistics strategies in a developing economy". There is a strong developmental focus in these reports, which recognises the need for emphasis on the second economy when analysing the logistics sector in South Africa.

Definition of logistics
Logistics is that part of the supply chain process that plans, implements, and controls the efficient, effective flow and storage of goods, services, and related information from the point of origin to the point of consumption in order to meet customer requirements.

The 2007 and fourth survey is titled "Logistics for regional growth and development" and portrays the role South Africa plays, from a logistical viewpoint, in the southern African region.

THE MACRO-ECONOMIC PERSPECTIVE

In a recent study conducted by the World Bank on international logistics competitiveness, South Africa (SA) was ranked 24th out of 150 countries, the best-ranked developing country, even beating China (placed 30th), but when rated on internal (domestic) logistics costs, SA was placed only 124th. The high logistics costs remain the biggest concern for the industry and if SA wants to compete in the global marketplace the high logistics costs need immediate attention.

Between 2003 and 2006 logistics costs as a percentage of GDP dropped by one percentage point and now stands at 15,7% of GDP (Figure 1). This drop can be ascribed mainly to the high growth SA has experienced in its GDP, but logistics operators have also been able to better utilise spare capacity in the logistics system through better management and streamlining of the total supply chain e.g. by implementing lean-manufacturing principles and reducing inventory costs.

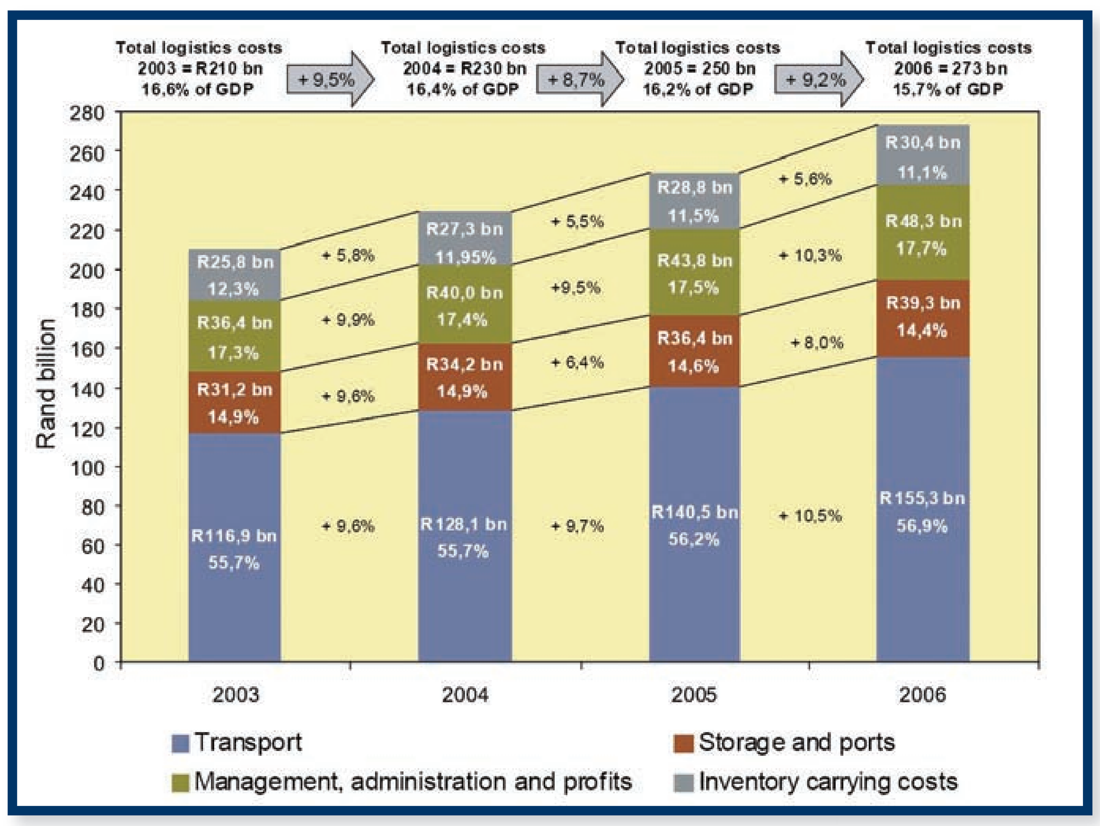

Figure 1: The stack elements of logistics costs (2003-2006)

The contribution of the stack elements to logistics cost remained mostly unchanged between 2003 and 2006, except for transport costs. Transport remains the biggest contributor to the cost of logistics in SA and the continued increase over the past few years is a worrying trend (Figure 2). The transport sector is more susceptible to administered prices (cost elements outside the control of logistics managers) and the poor configuration and management of the freight network will continue to drive this trend.

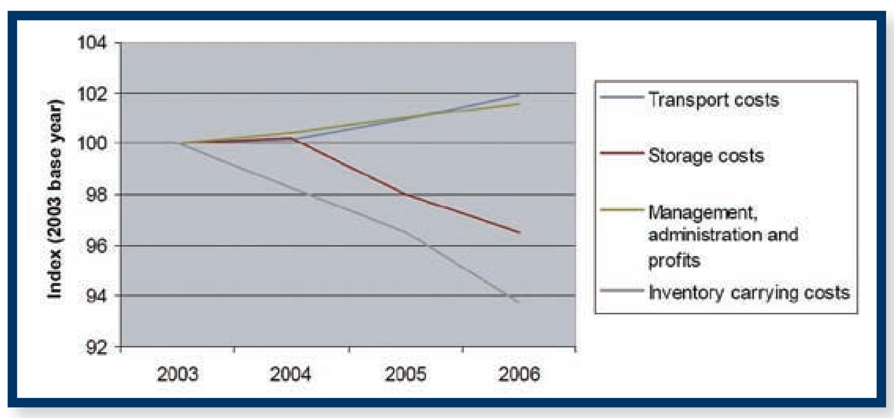

Figure 2: Growth in the transport cost element (2003-2006)

Between 2003 and 2006 total land transport increased from 1,2 billion tons to 1,5 billion tons shipped. The split between road and rail, and changes in total tonnage and ton-km between 2003 and 2006 are shown in Figure 3.

Since 1997 all growth in land transport has been captured by road, with rail continually losing market share to road transport (Figure 4).

The core modal structure of transport has not changed the past few years and one of the challenges that arise is the inordinate volume of road freight on corridors, which requires sustained road infrastructure investment, thereby in effect limiting funds for rural and second economy infrastructure development. The need

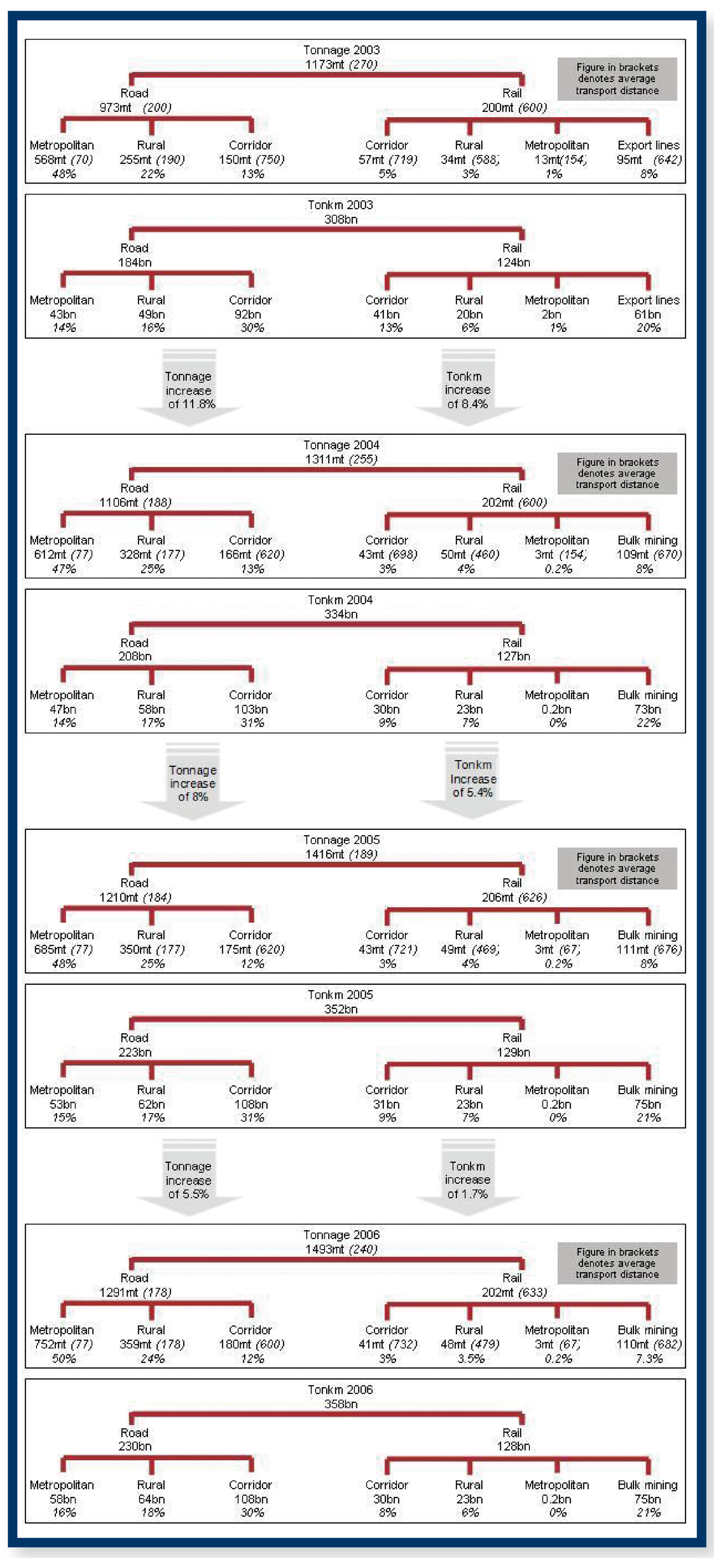

Figure 3: Land freight transport in South Africa

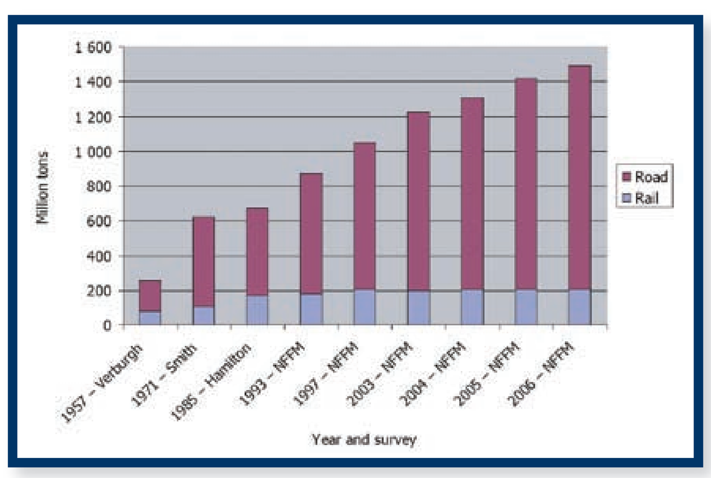

Figure 4: Historical freight transport data

for modal restructuring is evident through further analysis of the four main transport typologies (Figure 5).

THE INDUSTRY-LEVEL (MICRO-ECONOMIC) PERSPECTIVE

The industry-level perspective gives a synoptic overview of logistics practices and the health and maturity of the SA logistics industry and supply chains. The analysis is strongly linked to each year's theme and therefore various different industries and sectors have already been covered.

The first SOL survey in 2004 provided a broad overview of the logistics issues in industry and gave a supply chain overview on the steel, automotive and grain industries in SA. The 2005 survey analysed supply chain challenges and innovations for the chemicals, processed foods and third-party logistics service provider (3PL) industries. Similar to the private sector, government also faces supply chain issues when delivering services to its citizens and the survey illustrated this by analysing the complexities of the health-care sector in SA. The 2006 survey focussed on the fast-moving consumer goods (FMCG) industry and also looked at the general issues connected to government service delivery and as an example looked at the concept of multi-purpose community centres (MPCCs) as a way of integrating service delivery and making it more accessible to citizens.

The 2007 SOL report analysed the part that South African ports play as the economic lifeline in a global economy. It also looked at the role of 3PLs when companies export into Africa. SA's potential as a regional logistics hub in the Southern African Development Community (SADC) region was promoted and the role SA can play in economic development in the region highlighted.

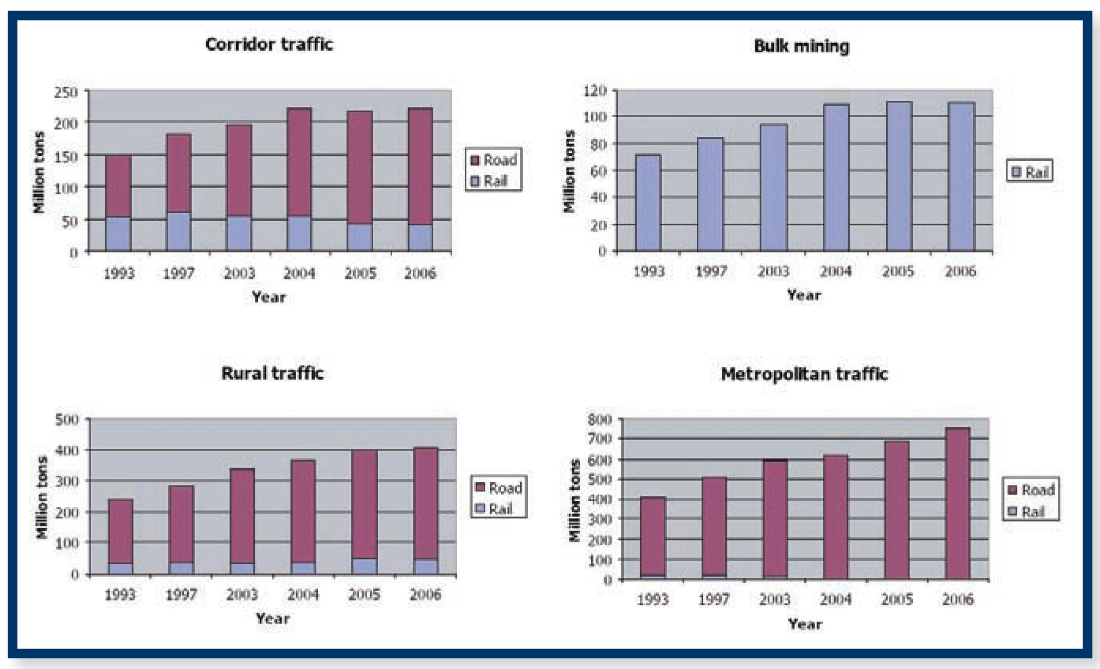

Figure 5: Historical freight data for the four transport typologies

SMALL BUSSINESS AND RURAL DEVELOPMENT PERSPECTIVE

The SOL surveys have from the start recognised the importance of the second economy in the logistics environment in South Africa. Through various case studies and industry analysis the surveys have described the role that small businesses play in the logistics sector and also the effect that rural logistics development has on the sector as a whole.

The 2004 survey highlighted logistics issues in resource-poor rural environments and the 2005 survey focused on reducing the 'logistics divide' between the first and second economy, which exists between mainstream supply chains of large technologically-advanced firms and the local or informal sector's supply chains. Examples used included inter-linked sets of national fresh produce markets and the use of innovative light delivery vehicles (LDVs). The 2006 survey looked at strategies for small businesses to improve their supply chain operations and also at some survival strategies when trading in a constrained environment. An extensive exercise was also performed to estimate the transport component of road-based logistics costs for the whole of SA.

The continued measurement of the logistics performance of SA is of critical importance to both government and the private sector.

The 2007 survey analysed the role small, medium, and micro-enterprises (SMMEs) play in the export market and also looked at programmes that government implements to assist SMMEs when exporting across the border or abroad. The complexity increases in the supply chain when exporting and this makes it more difficult for SMMEs. More government assistance or collaborating and partnering with bigger businesses when exporting could make it easier for SMMEs to compete globally.

CONCLUSION

The SOL surveys make it possible to analyse and show trends over the past five years of logistics issues, which was not possible when this survey started in 2004. The continued measurement of the logistics performance of SA is of critical importance to both government and the private sector. Government needs to streamline and invest in the freight logistics system in SA to ensure that it promotes economic prosperity and growth rather than hampering it. The private sector gains by being able to benchmark itself with local and international best practices and through adapting adding logistics value to the country as a whole and simultaneously driving down costs.

The State of Logistics reports can be downloaded from www.csir.co.za/sol/

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