Recognise the challenges – but remember that fortune favours the **brave**

Why is supply chain so difficult in African markets? Industry expert **Tielman Niewoudt** looks at the challenges of getting goods to market on a continent that is in a state of rapid consumer evolution.

FORECASTING DEMAND AND managing stakeholder engagement in supply chain management are difficult at the best of times, even in the most developed markets. As Africa increasingly becomes part of the global supply chain mix, the lack of infrastructure development remains a major stumbling block for investors. On arrival, executives frequently identify nascent demand for their products, but with increased operational complexity compared to their home regions.

For example, in African markets there is often difficulty forecasting demand, dealing with fluctuating costs and sometimes depreciating currencies. In some cases, importers might also struggle to get their hands on foreign exchange, resulting in a fragile domestic supply chain. Ask any Ethiopian importer and they will attest to the struggles with hard currency. On occasion, the availability of certain stock keeping units (SKUs) can also fluctuate dramatically.

The following are among the supply chain challenges that foreign companies need to address as they expand their reach into Africa. The list may seem long and daunting, but with rising consumer demand in one of the world's last great untapped markets, the continent offers high returns for those who succeed.

Small grocery outlets are sometimes situated in congested areas with narrow roads that standard delivery trucks find difficult to access

Information technology

Often local 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.

Open markets such as Ethiopia's Mercato market in Addis Ababa and Ghana's Makola market in Accra frequently contribute significantly to sales. Yet they operate more like a 'bazaar economy' and have a lack of transparency when it comes to prices and quality.

Risk in one area can easily affect the whole supply chain

Dumping/parallel imports

These remain a major concern. Lower-income economies, in particular, are a dumping ground for many importers and exporters that buy expired (or close to expired) products from the US and European retailers, then sell them at reduced prices to intermediaries.

Parallel imports provide additional headaches. For example, in Nigeria it is not uncommon to find the same product line, sourced from three different manufacturing locations – the US, Turkey and the UK (or any number of other national combinations).

About the Author:
Tielman Nieuwoudt is Principal of The Supply Chain Lab and has extensive supply chain experience covering more than 30 emerging markets in Africa and Asia. The Supply Chain Lab is a group of supply chain improvement specialists with a focus on factory-to-village supply chain solutions.

Bureaucracy and corruption

Crossing land borders may demand some palm greasing. Countries such as Somalia, Sudan, South Sudan and Eritrea find themselves at the bottom of Transparency International's Corruption Perception Index. Dealing with port officials may be challenging and many countries struggle with high levels of bribery and corruption.

Deciphering the regulatory environment can take time and bureaucratic red tape frequently leaves many executives from developed countries ready to board the first plane out of the country.

Additional risk

African markets may provide additional supply chain risk, ranging from armed conflicts to terrorism, which leads to major disruptions in the supply chain. Risk in one area can easily affect the whole supply

Many outlets have limited cash flow and, in some cases, limited space to stock product

chain. For example, the number of cacao farmers in West Africa is decreasing at a time when global chocolate demand is increasing, potentially impacting on worldwide chocolate supply.

The nature of risk is also constantly changing, as the recent Ebola crisis in West Africa and Boko Haram and Al-Shabaab attacks in Nigeria and Kenya demonstrated.

Infrastructure deficiencies

Many African countries still struggle with creaking infrastructure. In some cases, a large proportion of the population might not be linked to any major road network. Mountainous terrain also has an impact and may cut off communities and cities from important markets.

For instance, in Ethiopia, it is estimated that 38% of the population still resides five hours or more away from a city with a population of 50 000.

Seasonality

Seasonality is an important factor and the rainy season can play havoc with rural communities. In upcountry Tanzania, the absence of all-season roads will isolate cities and villages and make supply impossible.

In urban environments, poor infrastructure may impact the supply chain function in other ways. For example, small grocery shops are sometimes situated in congested areas with narrow gravel roads that delivery trucks can't easily access.

Long lead times and costs are two of the biggest challenges

Lead times and costs

Long lead times and costs are two of the biggest challenges for almost every industry. A World Bank study has found that, with the exception of the South African port of Durban, cargo spends an average of 20 days in African ports, compared to just three of four days for most ports in other parts of the world.

Africa's numerous landlocked countries are particularly impacted, as supply chain lead times are significantly longer and more expensive. For example, in Ethiopia the freight cost is higher from the neighbouring port of Djibouti to the Ethiopian capital of Addis Ababa, than the far longer sea journey from Guangzhou in China to Djibouti.

Lack of modern trade

Modern trade in many African countries is still in the very early stages of development and the contribution is often in the low single digits. Countries such as South Africa and Kenya are the exception.

A HUGELY COMPLEX APPROACH TO MARKET

According to a Nielsen research study published in February – entitled 'Africa: How to Navigate the Retail Distribution Labyrinth' – the most common shopping channel is the table top; the emerging-market equivalent of the convenience store.

Table tops are informal roadside stalls or kiosks set up to capture passing trade. And, notes the study of 14 sub-Saharan countries, around 80% of consumers shop from these table tops, of which there are around 200 000 in Nigeria alone. In addition, Nielsen's retail sales data shows that some 40% of consumers shopped in small, local grocery stores, which account for nearly 50% of consumer goods spend. There are more than 550 000 of these outlets in the countries monitored.

"In this environment, the approach to market is hugely complex. Manufacturers need to reach large volumes and many different types of outlets, figuring out the different role each plays for the consumer and how to influence demand," says Allen Burch, the company's Africa head.

"No wonder, then, that companies struggle with the scope and scale of distribution. To date, while there is broad macro-economic and demographic data available to guide market strategies, there has been scant information available about retail structure and consumer interaction [in order] to guide distribution strategies. As a result, even companies poised with the right products for the right market still often fail to get them to the right place."

PHOTOS: TIELMAN NIEWOUDT, GETTY/GALLO IMAGES

Moving goods to a large, fragmented outlet base is difficult and costly. In a fragmented retail segment, companies struggle to achieve economies of scale on both the retail and supply sides. Furthermore, small outlets often have limited cash flow and, in some cases, limited space to stock product. In Nigeria, for instance, small grocery stores often run out of stock and require an intermediary, such as a wholesaler, to break bulk.

Often the outlet base remains fluid, with new shops opening and closing. Seasonality also plays a part here. In Tanzania, some outlets might stop selling cold and frozen goods during the rainy season. Furthermore, not all shops or selling points are permanent structures and they often sell limited stock-keeping units. In Nigeria, MTN successfully targets the 'table top' channel (micro-entrepreneurs who, quite literally, set up a table as a temporary sales outlet) to sell mobile phone cards.

Difficult third-party logistics

In some cases, organised 3PLs (third-party logistics) revolve around independent transporters with a 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.

Even identifying a distributor partner can be a challenging undertaking. In Ethiopia, with its current influx of investors, the distributor landscape has become more competitive. However, in many cases distributor footprints are limited to wholesale and key account outlets.

In summary

While overcoming these challenges may seem daunting to newcomers and those with ambitious expansion plans, many organisations have already made great inroads in defining their supply chain strategies in African markets.

Working in these markets requires patience and a continuous improvement mindset. 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 probably too late to enter that market.