BIZCOMMUNITY

Global and local market volatility to continue into 2023

By Denys Hobson

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2022 was undeniably another one for the books. From the KZN floods, loadshedding, inflation, heat waves in China and the Russia and Ukraine war, there is no doubt that 2022 came with its own set of challenges and like many sectors, imports and supply chain went through various unexpected challenges.

Denys Hobson, Head of Logistics at Investec for Business

As we approach the New Year, importers and exporters can expect more stability on certain fronts. The decline in freight rates, increased capacity and the global easing of port congestion are all positives. This means that overall, from a supply chain perspective, things are starting to look more positive and stable compared to what we have endured throughout the previous few years. Strategizing and planning with focus will be critical to ensure companies take advantage of new opportunities created.

Having said that however, there is no doubt that challenges will arise as volatility adds to complexity and importers will need to adapt their inbound supply chain, prioritise risk mitigation, plan strategically and free up working capital to allow them to take up opportunities when they present themselves or ride out challenges if the market turns.

Four business strategies, therefore, become crucial in this space:

Planning and movement of goods

Planning for shipments will always be a reoccurring need as the supply chain is ever-evolving and to stay ahead of the curve, businesses must run a tight ship to ensure that disruptions, whether local or global, don't affect business continuity. It is essential to plan around peak periods and key industry dates and changes to ensure your orders move timeously. Furthermore, shipping lines are likely to implement blank sailings and adjust routings to drive optimal vessel utilisation and yields.

These changes can have a negative impact on inventory, sales, cash flows and profits. It's imperative to understand the impacts of such changes and being proactive will go a long way to mitigate delays and working capital pressures. Additional working capital may need to be freed up to ensure business operations and growth continues during uncertain periods.

Agility for clearer visibility

Global economies have been struggling with numerous rate hikes that have threatened consumer spending – forcing them to be more frugal than ever. And if you consider how the pandemic was challenging to retailers with a shortage of stock, many adopted the view of increasing inventory levels and over-buying as a precaution for "just in case". But with lower consumer spending, retailers and manufacturers have to be careful about how to move goods to meet the demand of consumers. As a result, we are likely to see a move to create agile supply chains with improved visibility so that these decisions can not only be made more decisively but that there is clearer visibility and flexibility for better decision-making.

Hedging and risk mitigation

If the last two years are anything to go by, it is safe to say, companies need to stay very close and understand the impacts to their supply chain of events locally and globally to ensure they can adapt their business and mitigate possible risks that may occur. While landed costs have always had to be a strong consideration for importing, with today's Rand volatility, rising inflation and the knock-on effects of global and weather-based events, coupled with delays in production, rising manufacturing costs, erratic sailing schedules, and port constraints, is it even possible for an importer to determine landed costs accurately? And moreover, given the complexities involved, is it possible to predict the landed cost of the product in Rands?

It's about understanding the cost elements one can control and how these are consolidated into a guaranteed landed price per unit so that purchasing decisions can be made in Rands to optimise or protect margins from the onset. Foreign currency-related costs are often determined on the day (spot price) or if hedged via a forward contract, are often extended due to goods shipping on a date later than intended. Supplier cost of goods, freight, and origin charges are charged in foreign currency, and customs duties are calculated at a rate of exchange determined by SARS on the day goods are shipped. As a result, these costs are extremely vulnerable to market and the Rand's volatility.

Whilst there are daily peaks and troughs in the Rand's trading, a five-year historic view would illustrate the high volatility and overall depreciation in the ZAR/USD trade. The Rand volatility can materially impact cost viability, especially on goods that carry high-duty tariffs (e.g., up to 45% on apparel). Given the increased volatility we are likely to see more importers working with a logistics service provider that has the ability to mitigate the volatility and even hedge the duty component to address this risk. Essentially this means being able to take a forward exchange contract on the customs duty component, meaning that the Rands cost of customs duty is locked in when the order is placed with the supplier. This is already happening, and getting the right partner will become critical.

Enhanced security

As we continue to live a digitally automated life and more businesses adopt digital solutions the chance of cybercrime increases exponentially. In South Africa, cybercrime has an economic impact equal to 0.14% of the national GDP – about R5.8 billion a year. In fact, we saw what the 2021 Transnet hack did to the supply chain sector when it brought it to a complete halt – causing loss in revenue and backlogs that caused major disruption. Therefore, cybersecurity will always be a variable that must not be neglected in 2023 - it is imperative that businesses assess risks and how to protect themselves from further supply chain issues.

As we anticipate fewer supply chain disruptions in 2023, we can never be certain that the worst is over. However, much has transpired in the last two years to help us navigate any possible challenge that may arise. And with the speculation of a global recession looming as central banks maintain high interest rates, things can shift at a moment's notice.

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