

Covid-19's impact on logistics is creating ripple effects in other industries

According to Samantha Naidoo, Logistics Industry Value Advisor at SAP Africa, the logistics industry's response to the pandemic will greatly influence how well other sectors of the economy are able to adapt to our new reality. "The sector forms the backbone of global trade and is fundamental to the effective running of most other sectors. Any disruption in the sector has ripple effects on the performance of other sectors.

"For example, a shortage of fibre components affects Internet service providers' ability to onboard and retain customers, and if those customers are businesses, their ability to remain productive and connected to their customers during lockdown is negatively affected too. And so the ripple effects cascade across industries and affects businesses big and small in significant ways."



Image Supplied.

The impact of Covid-19 on the logistics industry was first observed in China. According to the International Finance Corporation, disruptions to China's manufacturing industry created ripples across global supply chains. With backlogs at the country's ports, travel restrictions affecting local transport mechanisms, and many cargo ships prevented from vessel berthing and unloading of goods from vessels coming from different countries, global industries suddenly experienced a shortage in commodities and goods.

Freight forwarding companies are also concerned that the extended costs of storage is impacting their ability to collect and dispatch goods around the country quickly.

"This was most acutely felt in the global shortage of protective personal equipment," explains Naidoo. "Since China supplies 60% of the world's exported goods, the sudden halt in production has left many industries short of the essential components they need to not only operate effectively but also weather the economic storm brought by the pandemic."

Local exporters left in limbo

In South Africa, the impact of the pandemic has impacted companies such as Transnet who, with only 50% of staff operational, have been able to make barely 60% of its forecast revenue during quarter one. In June, Transnet was operating with only 60% of the Cape Town port staff. This forced some exporters to transport goods hundreds of kilometres

away or risk millions in lost revenue as well as severe reputational damage.

"In the case of fruit exporters, many trucked their goods cross-country to Port Elizabeth and in some cases as far as Durban - 1,635km away," says Naidoo. "As one industry member commented, if your fruit arrives a week or two late, the market opportunity is already gone. What's more, the reputational damage caused by not delivering to schedule could undermine local producers' recovery efforts in the months to come."

The global supply chain was already under pressure before the pandemic emerged. A renewed risk of trade wars, increased tendencies toward protectionism, and issues of sustainability all put pressure on an industry at the core of global trade.

"We also saw increased interest in logistics startups from the venture capital community, indicating growing awareness of the urgent need for major changes in how the sector operates," says Naidoo. "In the last six years alone, venture capital investment into logistics startups grew by 76% compound annual growth rate, topping \$28bn dollars between 2015 and 2020. The pandemic is likely to accelerate this investment as more companies adapt to the disruptive effects of the pandemic and other macroeconomic challenges."

Changes needed to survive, thrive

While the long-term ripple effects remain to be seen, the World Economic Forum has predicted the sector may need to make drastic changes soon. Some companies may choose to move supply chains closer to home, or to different countries. Others will increase the digitalisation of their services to secure greater long-term sustainability.

"Logistics firms should seek ways to digitalise the customer experience to create new ways of engaging with customers and ensure they can withstand the challenge from new digital entrants," says Naidoo.

"Technologies such as machine learning and IoT can also help digitalise operations, for example by generating richer information about the performance of trucks and other assets or enabling predictive maintenance that helps logistics firms repair potential issues before they affect productivity. With the help of digital tools, logistics firms can also offer premium services that go beyond their current offering, for example terminal operators offering on-carriage services."

Embracing technology to build resilience

Naidoo adds that, from a technology perspective, logistics companies will need to fundamentally change their IT infrastructure to meet the new challenges. "Legacy infrastructure needs to be reviewed to ensure it can scale and adapt as the business evolves. The ability to sense and respond to new business dynamics will require complete visibility over the business' data and systems, which may be difficult or impossible with legacy infrastructure."

She believes logistics companies need to make use of digital twin technology to more easily design and test new operating models. "By bringing together data from processes, people, products and assets, logistics firms gain complete visibility over

the entire business, from design to full-scale deployment and operations. Having the right information in the hands of the right people at the right time creates intelligent, resilient processes that can respond to shifting conditions."

Naidoo says companies need to integrate operational data with experience data by making use of customer experience feedback platforms like Qualtrics, for example. "Combine smart connected assets using IoT to advanced processing capabilities like AI, and logistics companies gain a holistic view over their entire supply network, taking the guesswork out of predicting and identifying emerging opportunities."

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