

DEPARTMENT OF BUSINESS MANAGEMENT

OBS 210

2022

CHAPTER 1: CLASS ACTIVITY

RAINBOW

Rainbow's value-added products are promising spring chickens

Rainbow Chicken, South Africa's largest chicken producer, runs a complex operation to produce the right size bird at the lowest cost. The group's recent shift into value-added products such as ready-to-eat whole chicken, chicken mayonnaise mix and chicken nuggets is a small but promising part of its business. The core of Rainbow's business is still producing 4 million broilers a week. For Miles Dally, Rainbow Chicken's chief executive, the business, which he joined in February 2003, is no longer focused on producing huge volumes of chicken and then deciding through which channels to sell the product. Previously, this resulted in a volatile low-margin business, and slow winter sales forced Rainbow to make up by pushing high volumes in summer. The chicken market in South Africa is valued at R13.5 billion a year, of which Rainbow has a 30% share, followed by competitor Astral Foods and then imports. Rainbow's strategy now is to produce what the foodservice sector and consumers want and to ensure consistent demand – the right size chicken at the lowest cost.

For the feed operation, higher maize prices lifted Epol's revenue, which supplies mainly the chicken business and some external customers. The group's headline earnings before interest, tax, depreciation and amortisation margin for the year to March 2006 was 14.1% compared with 6.9% in the year to March 2003. In the year to March, Rainbow reported a 73% rise in attributable profit to R389.8 million.

Among initiatives to meet the needs of customers, Rainbow now supplies the retail market with a family pack of individually quick frozen (IQF) chicken based on consumers' preference for four thighs, four drumsticks, four wings and no breast. The company has added flavoured IQF portions. IQF is the biggest part of the retail chicken market.

For the foodservice sector, including fast food operations, caterers and restaurants, which contribute 32% to Rainbow's R2 billion revenue, the group supplies chicken portions to suit exact needs. Dally said the group was benefiting from growth in quick-service restaurants such as KFC and Chicken Licken. Owned by Yum Restaurants International, KFC has more than 400 outlets in the country, of which 70 were opened

in the past three years.

For Rainbow to meet customers' different requests, it requires a finely tuned operation that requires stringent bio-security controls and improved husbandry. Every year 175 000 grand-parent chicks are flown in from Cobb in the UK to Rainbow's grandparent farm in Carolina in Mpumalanga.

These grandparent chicks produce 10 million eggs. Of these hatchings, it takes 20 weeks to rear to egg-laying age. They lay for 40 weeks and the eggs take three weeks to hatch. These hatchlings become parent chicks and are moved to parent farms, where they are reared for 20 weeks. They lay eggs for 40 weeks and the eggs take three weeks to hatch. This batch becomes broiler chicks that grow for 35 days until ready for processing. Chicken is the favoured animal protein in South Africa, far outstripping red meat. Last year 22.4 kg of chicken was eaten per capita compared with 13 kg of red meat.

The group is also looking to secure new business from restaurants and hotels. Rainbow will spend about R160 million on expansion projects, including upgrading existing or building new coops to boost capacity and on mills for its feed operation to improve efficiency.

Adapted from: Niemann, W. & de Villiers, G. 2022. Strategic Logistics Management: a supply chain management approach, Third Edition, Van Schaiks.

CASE STUDY QUESTION

1. Discuss the primary and secondary value chain activities evident in the case associated with Rainbow's value chain. Provide evidence, in your own words, to support your answers. (*No marks will be awarded for quoting directly from the case study*)

Primary activities:

The primary activities include inbound logistics, operations, outbound logistics, marketing and sales, and services.

Inbound logistics: Includes activities such as receiving, storing, listing and grouping inputs to the product. Also included are functions such as materials handling, warehousing, inventory management, transportation scheduling and managing suppliers.

Inbound logistics consists of activities such as receiving, storing, listing and grouping inputs (raw materials) to the product. In the case study, it states that grand-parent chicks are flown in from Cobb in the UK to grandparent farm in Carolina in Mpumalanga. These chicks are mainly used to breed broiler chickens. The imported chickens and broiler chickens are the raw materials used in Rainbow's operations.

Operations or manufacturing: include machining, packaging, assembly, maintenance of equipment, testing, operational management and so on.

Example 1:

Operations consist of activities such as manufacturing of the product. Manufacturing is evident in the case study as the core of Rainbow's business is producing 4 million broilers a week.

Example 2:

Operations consist of activities such as manufacturing of the product. Manufacturing is evident in the case study as grandparent chicks produce 10 million eggs. These hatchlings then take 20 weeks to rear to an egg-laying age and they then lay 40 for 40 weeks. The eggs then take three weeks to hatch. The hatchlings become parent chicks and are moved to parent farms, where they are reared for 20 weeks. They lay eggs for 40 weeks and the eggs take three weeks to hatch. This batch then becomes broiler chicks that grow for 35 days until they are ready for processing. This is an excellent example of the operations of getting the right broiler chickens.

Example 3:

Operations include activities such as upgrading and maintenance of equipment. Upgrading of equipment of evident in the case study as Rainbow spends millions on projects to upgrade existing coops and to build new coops to increase capacity. These projects increase production capacity.

Outbound logistics: refers to activities such as order processing, warehousing, scheduling transportation and distribution management.

Rainbow supplies chicken for the foodservice sector, including fast food operations (such as KFC and Chicken Licken), caterers and restaurants. All the activities included here is storing the finished products at a distribution centre and all the planning activities of getting the products to the restaurants, retails shops and fast food outlets. Remember that the transportation of this product is unique in the sense that it is a fresh product or in some cases frozen, but still has to be delivered to the customer as quick as possible to avoid any of the products going bad.

Marketing and sales: are all activities that make or convince buyers to purchase the company's products. Included activities are: advertising, promotion, selling, pricing, channel selection, retail management, and so forth.

Marketing and sales include activities that make or convince buyers to purchase the company's products. It also includes activities such as selling the product. In order to convince consumers to purchase Rainbows products, they supply the retail market with a family pack of individually quick-frozen chicken which is based on consumer preferences.

Service: has to do with maintaining the product after-sale, thus guaranteeing quality and/or adding value in other ways, such as installation, training, servicing, providing spare parts and upgrading. Service enhances the product value and also allows for after-sales (commercial) interaction with the buyer.

Not mentioned in the case

Not mentioned explicitly in the case. However, one can have a discussion in class to form an opinion on this activity. After-sales could include things like following up on customer satisfaction or dealing with any batches that do not meet the customer's requirements.

Secondary/support activities:

The support activities include procurement, technology development, human resource management and the firm's infrastructure.

Procurement: are activities such as purchasing raw materials, servicing, supplies, negotiating contracts with suppliers, securing building leases and so on.

For the feed operation, higher maize prices increased Epol's revenue, which supplies mainly the chicken business and some external customers. Procurement consists of purchasing raw materials. It is evident in the case that Rainbow purchases raw materials such as maize from Epol. Purchasing also consists of negotiating contracts with suppliers, therefore, one can think that Rainbow will have some form of contract in place with Epol for the supply of maize which is a procurement function and supports the operations of Rainbow.

Technology development: refers to activities such as R&D, product and/or process improvements, (re)design, developing new services, and so forth.

Technology development is evident in the case study as Rainbow continuously looks for product improvements and developing new products. This is evident in the case study as Rainbow supplies the retail market with a family pack of individually quick-frozen chicken. This is offered to the retail market as Rainbow identified that individually quick-frozen chicken is preferred by consumers. Rainbow is constantly analysing the market and attempting to meet the changing needs of customers. Incorporating the latest technology in the production, processing and packaging of broiler chickens are all activities which pertain to technology and development.

Human resource management: includes recruitment and education, as well as compensation, employee retention and other means to fully capitalise on human resources.

Not mentioned in the case: However, thinking of the production of broilers it is clear that staff has to be developed and trained to work with the chickens to ensure quality and health regulations are being adhered to.

Firm's infrastructure: general management, planning procedures, finance, accounting, public affairs and quality management, can make the difference between success and – despite the best intentions in the world – failure.

A firm's infrastructure includes quality management procedures. Quality management is evident in the case study as Rainbow finely tunes operations that require stringent bio-security controls and improved husbandry (the care, cultivation, and breeding of crops and animals.).

THEORY QUESTION

2. Explain the difference between a 3PL and a 4PL.

Third-party logistics (3PL) refers to the management structure where a third party fulfils certain roles and responsibilities regarding provisions of logistics services between the suppliers (first-party) and the clients or customers (second party). In other words, third-party logistics, is where a manufacturer maintains oversight of their supply chain but outsources their transportation and logistics operations to a 3PL provider.

Fourth party logistics (4PL) is when one company is able to outsource their entire management of its supply chain to another company. This would include all the assets, planning and management of the process. In other words, fourth-party logistics, is a logistics model in which manufacturers outsource both the organization and oversight of all aspects of the supply chain to a 4PL provider.

Differences:

- The 4PL organisation is often a separate entity established as a joint venture or long-term contract between a primary client and one or more partners.
- It acts as a single interface between the client and multiple logistics service providers.
- All aspects of the client's supply chain are managed by the 4PL organisation.
- It is also possible for a major 3PL provider to form a 4PL organisation within its existing structure.