DIGITAL TRANSFORMATION STRATEGY FOR SMITH'S (PTY) LTD'S SHIPPING PROCESS

DELOITTE – CA OF THE FUTURE – PHASE 1

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Due Date: 16 September 2024

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Executive Summary

This report outlines the digital transformation strategy for Smith's (Pty) Ltd, a family-owned chocolate factory, with a specific focus on modernizing the company's shipping and invoicing processes through the incorporation of Artificial Intelligence (AI) and other advanced technologies. Smith's aims to enhance its operational efficiency and customer service, ensuring its products maintain the highest standards of quality while remaining competitive in an increasingly digital marketplace.

The current shipping and invoicing process is predominantly manual, leading to inefficiencies, delays, and potential human errors. By implementing AI-driven solutions, Smith's can automate key functions such as order processing, inventory management, delivery tracking, and invoicing. An AI-based Order Management System (OMS) will streamline order processing and inventory control, while an AI-powered delivery management system will optimize delivery routes and improve verification processes. Automated invoicing and accounting software integration will further reduce manual effort, ensuring accuracy in financial records and accelerating payment processing.

The adoption of these technologies presents risks, including data security concerns and the need for employee upskilling. However, these risks are manageable with proper safeguards and training programs. The benefits of AI integration are clear: enhanced efficiency, reduced errors, real-time stock and delivery tracking, and improved customer satisfaction.

This digital transformation will position Smith's (Pty) Ltd to achieve its vision of becoming a leader in the premium chocolate industry, combining tradition with innovation to drive growth and profitability.

Introduction:

Smith's (Pty) Ltd is a family-owned chocolate factory that began operations in early 2014. Founded by Bruce Smith, a retired schoolteacher with a passion for confectionery, the company is fully owned by the Smith family, including Bruce's wife, Matilda, and their son, Tommy. Specializing in high-quality chocolate products, Smith's offers three distinct varieties: 250g milk chocolate bars, 100g dark chocolate bars, and 400g unsweetened chocolate bars, each sold in uniform boxes of 50 bars. Despite their dedication to producing premium chocolates, the Smith family is seeking to modernize their operations through digital transformation to enhance efficiency and keep pace with technological advancements in the industry.

Vision:

Smith's (Pty) Ltd envisions becoming a leading name in the premium chocolate industry, renowned for its dedication to quality, innovation, and sustainability. By leveraging cutting-edge technology and digital advancements, the company aims to elevate its production processes and customer experience, ensuring that each chocolate bar embodies excellence and delight. Smith's strives to expand its reach both locally and internationally, while staying true to its family-owned values and commitment to crafting exceptional chocolates.

Mission:

At Smith's (Pty) Ltd, our mission is to produce and deliver superior chocolate products that bring joy and satisfaction to our customers. We are dedicated to refining our operations through continuous improvement and technological innovation, enhancing efficiency and ensuring the highest standards of quality in every product we offer. By embracing a digital transformation strategy, we aim to streamline our revenue processes, foster a strong connection with our customers, and uphold our family's legacy of passion and craftsmanship in the world of chocolate.

Section 1: Incorporating AI into the Shipping Process

Shipping and invoicing at Smith's, with the assistance of AI and other technologies, can be digitized. A variety of high-tech equipment and mechanisms can be introduced into the shipping and invoicing process for a change in the current setup into the following:

Overview of Current Shipping and Invoicing Setup:

1. **Sales Order Form:** The customer places an order that is recorded.
2. **Stockroom:** Personnel receives the order, retrieves inventory, and transfers it to the delivery personnel.
3. **Delivery Confirmation:** Delivery persons verify item and quantity.
4. **Daybook entries:** Delivery persons record the delivery of the day.
5. **Order Closing:** Delivery personnel closes the order as "shipped."
6. **Delivery and Invoice:** The delivery personnel deliver goods, along with a signed delivery note and invoice of goods to Matilda.
7. **Transaction Recording:** Matilda records the transaction manually in the cash receipt journal.

Applying AI and other technologies:

Order taking system automated with AI:

AI-based order management system (OMS):

Function: Automate the sales order form by integrating an AI-powered OMS that operates in real time for order processing. AI will be able to predict order volumes and manage stock levels while highlighting any discrepancies that may occur.

Example: Use an AI-based OMS with the functionality to fill in order details automatically, check the inventory for availability, and flag off the potential issues like shortage of stock much prior to the processing stage.

Intelligent Inventory Management AI-Driven Inventory System:

Function: The AI algorithms are supposed to handle the inventory levels, project stock needs, and automate the reordering in one go. AI analyses historic data to predict the demand and optimize the stock levels.

Example: An AI system instantly refreshing inventory in real time when orders are being executed and minimizes the need for any manual checks to make sure the stock level is updated without any delay.

Smart Delivery Tracking and Verification:

AI-Powered Delivery Management System:

Purpose: Combine AI and scan delivery routes for optimum performance in monitoring and optimizing; in real-time track the deliveries and make correct delivery data collection.

Example: AI systems employing GPS data and machine learning to optimize the route of delivery and predict time for delivery. It can also apply its image recognition capability to verify item and quantity against the sales order.

Automated Invoicing and Payment Processing:

AI Based Invoicing System:

Function: Automate invoice generation by utilizing delivery and sales data; enable AI to execute responsibilities that involve managing collections and resolving payment variances.

Example: Establish an AI-driven invoicing system that would automatically generate invoices when the order status changes to "shipped" and send them to customers. It could also allow for integration with accounting software to have financial books of records automatically updated.

Transaction Recording Digitization:

Integration with Accounting Software:

Purpose: Accounting software interfaced with OMS-invoicing system that allows automatic recording of transactions and maintenance of accounts

Example: An integrated accounting information system where, on the occurrence of certain transactions, the data are provided to the accounting information system from the invoicing system for automatically updating the cash receipts book. The debits and credit in regard to trade debtors, revenue, cost of sales, and inventory, respectively, would automatically be recorded by the system without manual input.

In summary:

Invoicing:

- Present Status: Invoicing of all orders is required, and transactions are to be recorded by Matilda. Current: Order entry is a manual process.
- AI Solution: AI-driven Order Management System for order auto-processing and verification.

Stockroom and Delivery:

- Present Status: The stock is retrieved manually, and the delivery is logged.
- AI Solution: Allow AI to perform inventory management to update the inventory in real-time. The delivery persons are given a mobile application on which the information of the orders is verified and recorded in real time.

Automate the invoicing process by creating and sending invoices immediately after shipment, along with complete accounting software integration so that financial records will automatically generate transactions.

Include the information listed:

- Present Status: Financial books are done by hand.
- AI Solution: Allow your financial books to update themselves through integrated accounting software, based on the data created from invoicing and delivering goods.

Benefits:

- **Efficiency Improved:** Automation reduces the amount of work for the employees; therefore, it speeds up the processing of orders, and correspondingly, the creation of invoices.
- **Accuracy:** AI reduces mistakes in order processing, in managing the stock, and in the invoicing.

It provides real-time information on the level of stock, the delivery status, as well as the financial transaction status. Lastly, improved customer service means that with quicker processing, correct deliveries will be processed without errors, thereby raising the levels of customer satisfaction. Smith's will always have a grand opportunity in the integration of AI and other technologies into the shipping and billing process to speed up operations with minimal human errors while raising the general efficiency of the revenues.

Section 2: Risks of Digitizing the Shipping Process

Digitization of the revenue business process, the shipping and invoicing process to be precise brings a great deal of benefits but along with those benefits, risks also come.

Risks associated with digitization of revenue business process of shipping and invoicing.

Risk	Explanation	Mitigation
1.Cybersecurity threats	Digitizing the business revenue process puts the company in a vulnerable position of being exposed to the possibility of attacked through cyber-attacks which are intentional efforts to steal, expose or destroy information through unauthorized access to the to a network and data breaches which is where confidential information is exposed to a person who is not authorized to access it, for instance the competitors may get the information and use it to their advantage. This can put sensitive financial and shipping information in danger.	• Install firewalls. • Encrypt and backup your sensitive information. • Create strong and difficult passwords.
2. Dependence on technology	Dependence on technology creates vulnerability because when there are system failures, operations of the business as well as the revenue processes can be this disturbed and this can have a negative impact on the cashflow of the business and customer satisfaction because of losing data and delays created.	• Diversify can decrease the risk of over depending on technology by widening the services provided to include options that do not rely on modern technology.
3. The accuracy of data	Errors introduced by the systems can lead to problems when invoicing and tracking shipments, this can lead to the financial reporting being inaccurate and impacting the decisions made by shareholders and compliance with the accounting standards.	• The systems must be properly monitored and configured. • The system must be updated regularly. • Protect the system from viruses and malware by installing antivirus and antimalware software to scan viruses and malware regularly.
4. Integration challenges	Integrating the new system with the existing system can be challenging because of compatibility issues between the systems, the inconsistency of data and ensuring flawless efficiency across all integrated systems. Risks of integration challenges include delays, security over sensitive data being compromised and system failures which affect the operations of the business resulting in the business losing money.	• The system required to be integrated must be identified. • Choose a compatible integration solution. • Experts must provide customized solutions and help decrease error risk. • Ensure that sufficient funds are available by planning the budget properly and early.

		• The integrated system must be monitored regularly to check its performance. • Assess the security regularly to check any cybersecurity attacks.
5. Legal and privacy matters	Digitizing the business revenue process of shipping and invoicing can compromise the safety of employee or customer privacy because the modern technology can be vulnerable to hackers and the data can breach meaning sensitive and confidential information of the employees and customers can be exposed to people with bad intentions.	• Encrypt sensitive and confidential data to minimize the risk of getting hacked. • Grant access to sensitive and confidential to only the authorized personnel. • Sensitive information must be moved away from the network because data can move from one source to the next in the form of packets using Internet Protocol (IP) and Transport Protocol (TP). • Create strong and difficult passwords.
6. Regulatory compliance	The Regulatory Compliance in South Africa refers to the commitment to the laws and regulations that govern the businesses in the country. The business may be faced with compliance risk if the digital systems are not complied with the compliance requirements.	• The business must ensure that the digital systems comply integrate with the Regulatory Compliance.
7. Costs or financial risk	Transition from analogue processes to digital processes can costly because there may be some hidden expenses such as regular maintenance, troubleshooting and training for the employees to learn how to operate the new digital tools.	• The business must take insurance cover for the digital system as it will come in handy when the business suffers an unexpected loss. • Prepare the budget in advance to identify whether the business will require funds from other sources.

The impact of the risks on the triple bottom line of the business

The triple bottom line tests whether the business is moving to a regenerative and more sustainable future and the risks have a negative impact on the triple bottom line.

PROFIT (Economical)	PEOPLE (Social)	PLANET (Environmental)
• The profit of the business reduces because of cybersecurity threats such as cyber-attacks and breach of data. • When the digital system fails, the business operations are disturbed, leading to loss of income and reducing the business's profit. • Inaccuracy of data may cause the financial reporting to being inaccurate and this may influence the shareholders to leave the business, which decreases the profit of the business. • The hidden costs that come with digitizing of revenue business process, namely maintenances, troubleshooting and training of employees. These expenses are costly, and they decrease the profit of the business. • When the digitizing of the revenue business process, the digitization must integrate with the compliance requirements. If not, the business may face legal actions which are expensive and will reduce the profit.	• Integration challenges and dependence on technology may disturb employee productivity resulting in people losing their jobs. • Cybersecurity threats, inaccuracy of data, regulatory compliance and hidden expenses are factors that decrease profit and as profit decreases, more people lose their jobs which leads to poverty and starvation.	• Digital processes that are not efficient and electronic waste may increase environmental energy consumption and pollution.

Section 3: Employee Training for AI Integration

To facilitate employees in optimizing their us and communication with Artificial Intelligence (AI) in the shipping and invoicing processes, it is imperative to conduct training programmes that encompass both technical proficiencies and practical applications.

The following programmes can be incorporated:

1. Fundamental and awareness of AI

- AI fundamentals: Introduction to fundamental AI concepts, machine learning principles and automation technologies.
- AI integration in logistics and invoicing: Examination of the utilization of AI in the industry through real-word technologies.

2. Training on specific AI tools

- AI-driven shipping platforms: Practical training on tools that streamline shipping operations such as route optimization, training shipments and predicting delivery schedules.
- Automated invoicing solutions: Instruction on AI empowered invoicing platforms that handle tasks like data input, error identification and payment monitoring.

3. Data Management for AI systems

- Data precision and AI: Guidance on best practices for data input and ensuring data accuracy to optimize the functionality of AI systems.
- Utilizing AI dashboards: Comprehension of interpreting AI-generated reports and analytics to enhance decision-making processes.

4. Process streamlining

- Robotic Process Automation (RPA): Training on setting up and managing RPA tools to automate repetitive shipping and invoicing tasks
- Workflow Optimization: Learning to construct automated workflows that integrate shipping, invoicing and reporting procedures.

5. Interacting with AI systems

- Utilization of AI Chabot's and virtual Assistants: Training on engaging with AI based customer service systems for common queries related to shipping and invoicing.
- NLP (Natural language Procession): Acquisition of skills to effectively communicate with AI systems utilizing NLP for task management and reporting.

6. Troubleshooting and AI error resolution

- Diagnosing AI tools: Identification and resolution of common errors in AI systems pertaining to shipping and invoicing.
- Human Intervention in AI processes: Understanding when and how to intervene when AI systems encounter challenges or limitations.

7. Ethical and security considerations in AI

- Ethical frameworks in AI applications: Training on the ethical considerations of AI utilization in shipping and invoicing processes, emphasizes transparency and fairness.

- Data security in AI systems: Ensuring data protection and compliance with regulations when employing AI in shipping and invoicing operations.

8. <u>Continuous development</u>

- Advancements in AI technologies: Regular sessions to keep employees abreast of new AI developments and industry trends.
- Leveraging AI generated insights: Training on utilizing insight derived from AI to optimize workflows and enhance productivity.

<u>Training formats:</u>

- Workshops: Hands-on sessions utilizing AI tools in shipping and invoicing contexts
- Online courses: Flexible learning modules covering AI concepts and applications
- Simulations: Practical scenarios for troubleshooting with AI tools.
- Certifications: Programs to enhance employee credentials in AI utilization.

These programs are designed to equip employees with necessary skills to proficiently utilize AI and effectively communicate with AI and effectively communicate with AI systems within their respective roles.

Section 4: IAS 2 and Inventory Costs

No.	Costs of Purchase	Costs of Conversions
1	**Purchase price of raw materials:** Refers to the cost paid to suppliers for cocoa, milk, and other ingredients that are used to produce chocolate bars.	**Direct labour costs:** The wages paid to workers directly involved in the production process of the chocolate bars, such as machine operators and packaging staff.
2	**Import duties on materials:** If raw materials are from international suppliers, any duties or taxes imposed during the import process are part of the costs of purchase.	**Depreciation on machinery:** The cost of using factory equipment over time. This is allocated as an expense over the useful life of machinery, contributing to the total production cost.
3	**Freight and transportation costs:** The expenses incurred to transport raw materials from suppliers to the production facility. (e.g. cost of trucks, fuel or shipping)	**Utility Costs:** Electricity, water, and gas used in running the production machinery and maintaining factory conditions.
4	**Handling costs:** Costs related to unloading and storing raw materials before they enter the production process, such as warehouse staff wages or storage fees.	**Indirect labour for supervision:** The wages paid to supervisors or managers who oversee the production process but are not directly involved in manufacturing the chocolate bars.

Conclusion

In conclusion, the implementation of AI and advanced technologies in the shipping and invoicing processes at Smith's (Pty) Ltd presents a valuable opportunity to improve operational efficiency and accuracy. Automating tasks such as order processing, inventory management, delivery tracking, and invoicing will significantly reduce manual workloads, minimize errors, and enhance customer satisfaction. Integrating these technologies with the company's accounting systems will also streamline financial record-keeping and ensure real-time data availability.

While the transition to digital systems introduces some risks, such as data security and the need for employee training, these can be effectively mitigated through proper planning and upskilling programs. The overall benefits of digitization far outweigh the challenges, positioning Smith's for continued growth and success in a competitive market. By embracing digital transformation, Smith's can uphold its commitment to quality, innovation, and sustainability, ensuring long-term success for the family-owned business.