Reigning in Industry 4.0

KENYA'S ANSWER TO THE AGE OF ADAPTATION

The Manufacturing CFO 4.0 2021 Survey

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Credibility. Professionalism. Accountability

FOREWORD

Mark Wilson, Chief Executive Officer, SYSPRO EMEA&I.

Crisis breeds innovation, and there is no better proof of that than 2020. A changing combination of global supply chain sources, innovation and digitalisation has forever changed the classic set of responsibilities of CFOs in manufacturing and distribution companies.

Specifically, the role of the chief finance function has evolved from a more myopic financially centric viewpoint, to providing strategic visionary leadership alongside of the CEO. However, today's financial executives are increasingly aware that their effectiveness is compromised without a comprehensive and highly integrated set of technology tools at their disposal.

According to the World Bank, a robust, diversified and globally competitive manufacturing sector can, without a doubt, contribute significantly to increasing the economic growth of the country. ICT adoption has been identified as a key factor that can increase the competitiveness of Kenya's manufacturing sector within both local and export markets.

However, there is need to have a workforce with the knowledge and skill to implement the relevant technologies. Access to the latest technology solutions and financial resources to acquire these technologies are also indispensable. It is therefore clear that, to grow the manufacturing sector, the level of automation must be increased, and appropriate technical skills must be developed in this time of innovation and adaption.

The Manufacturing CFO 4.0 2021 Kenya survey, a collaboration between SYSPRO and ICPAK, was conducted across a range of global manufacturing and distribution businesses in Kenya. The participants encompassed financial leaders across predominantly larger enterprises, indicating that our results reflect the insights of big players in the manufacturing and distribution space.

We hope that this report provides a good foundation for its readers to understand the challenges and opportunities within manufacturing in Kenya and enables stakeholders to collaborate in finding solutions that will move the industry closer to its goals.

ABOUT SYSPRO

SYSPRO is a leading, global Enterprise Resource Planning (ERP) software provider, specializing in key manufacturing and distribution industries. Their Industry-built solutions and services are designed to make things possible.

SYSPRO's ERP solution empowers customers to take the next step – whether it is expanding into new territories, adding new product lines, transforming business processes, or driving innovation. Through their ERP software, customers gain access to solutions, processes, and tools to assist in the management of data for key business insights and informed decision making. The solution is scalable and can be deployed in the cloud, on-premise, or both, and accessed via the web on any device to provide customers with choice and flexibility.

As a trusted advisor, SYSPRO remains focused on the success of partners and customers. With a strong commitment to channel partner growth, SYSPRO customers are backed by a team of global experts that drive maximum value out of IT systems and business solutions. We are committed to addressing the unique needs of our customers, enabling them to easily adapt and remain resilient.

Their evolving solutions are aligned with industry trends and leverage emerging technologies that will enable partners and customers to secure a digital future and to gain a competitive advantage.

For more information visit za.syspro.com

FOREWORD

CPA Edwin Makori, Chief Executive Officer - ICPAK

The Manufacturing CFO 4.0 2021 Survey is the inaugural survey done in collaboration between SYSPRO and the Institute of Certified Public Accounts of Kenya (ICPAK). It presents high-level highlights of innovations that have gone into the realms of manufacturing, both in Kenya and beyond the borders.

It is noteworthy that the COVID-19 pandemic has prompted the need for diversification and novelty in recalibrating global market policies to help businesses adapt to the 'new normal' of digitized world. The accountancy profession world-over, like all professions, is going through a period of appraisal of its future position as a result of numerous changes in culture, technology and the world of work. In particular, the profession is witnessing a threat to its future viability as a result of three broad challenges: the challenge of attraction; the challenge of relevance; and the challenge of change. COVID-19 served as a valuable reminder of these challenges and importance of risk management and an aptitude for business strategy. As a consequence, therefore, modern and the future CFO, and the rest of the professional accountants, need to develop new skills and competencies, adopt technology as an enabler in order for them to remain relevant and their businesses, competitive.

This report forms an important source of input into the adaptative processes and interventions meant to engender technology and innovation as an imperative to the success of accounting, manufacturing and distribution sectors in Kenya and the rest of the world.

ABOUT ICPAK

The Institute of Certified Public Accountants of Kenya (ICPAK) is a statutory body of Accountants established under by the Accountants Acts of 1978, and as repealed under the Accountants Act Number 15 of 2008, mandated to develop and regulate the Accountancy Profession in Kenya. ICPAK is a member of the International Federation of Accountants (IFAC), the umbrella body for the global accountancy profession and a member of the Pan African Federation of Accountants (PAFA).

ICPAK has transformed itself as the leading professional body of accountants in the East and Central Africa Region. Currently, it regulates a body of close to 25,000 professional accountants spread over the world.

ICPAK members have been effective players in the professional arena at the global most notably in UK, Canada, Australia, South Africa, and the United States of America. The CPA Kenya has in the past and continues to be a strong brand in the East African region and has taken up the leading role in the development of the profession in the region.

For more information, please visit www.icpak.com

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Executive summary

Welcome to the "New Normal": Industry 4.0, where innovation has become a driving force in the success of the Manufacturing and Distribution sector. The hurdles of COVID-19 have expedited a global move towards diversification, particularly in the realm of digital transformation.

The SYSPRO Manufacturing CFO 4.0 2021 Global Survey has illustrated this phenomenon uncontroversially: new markets and novel innovations are fast becoming the status quo.

But while highly automated regions like the United States and Europe are spearheading the charge towards robotics and Simple, Measurable, Accurate, Realistic and Timely (SMART) technologies, Kenya has elected to pursue a different route along the road to recovery.

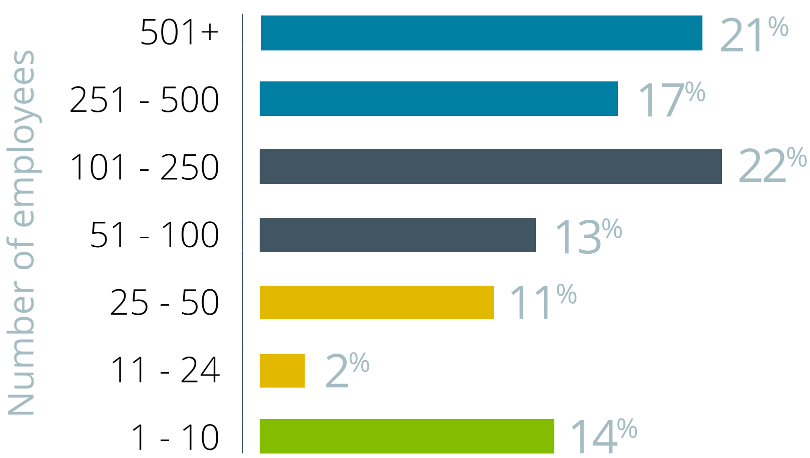
Their methodology (and growing success) stems from more traditional spaces, affording the world a window into the unique promises and challenges of both the Food and Beverages and the region as a whole.

Still, Chief Financial Officers (CFOs) and other financial leaders in the region understand the growing need for diversification. Despite success being found in the interim, their eyes cast a far wider gaze towards a more digital future. A consensus is growing: Change must come for Kenya to remain competitive globally.

As such, a new commitment to greater ERP migration has begun, with the region now looking to continue the move towards larger digital diversification. While this process may be slower than its peers, it is happening none-the-less. The future of Kenya's Manufacturing and Distribution sector, therefore, is one of promise, as a new era for the country's operational capacity is starting to be breached.

The Manufacturing CFO 4.0 2021 Survey was conducted across a range of Manufacturing and Distribution businesses in the region. It received 86 responses, encompassing financial leaders across predominantly larger enterprises (**60%** above 101 employees), indicating that our results reflect the insights of big players in the manufacturing and distribution space.

Average company size



01

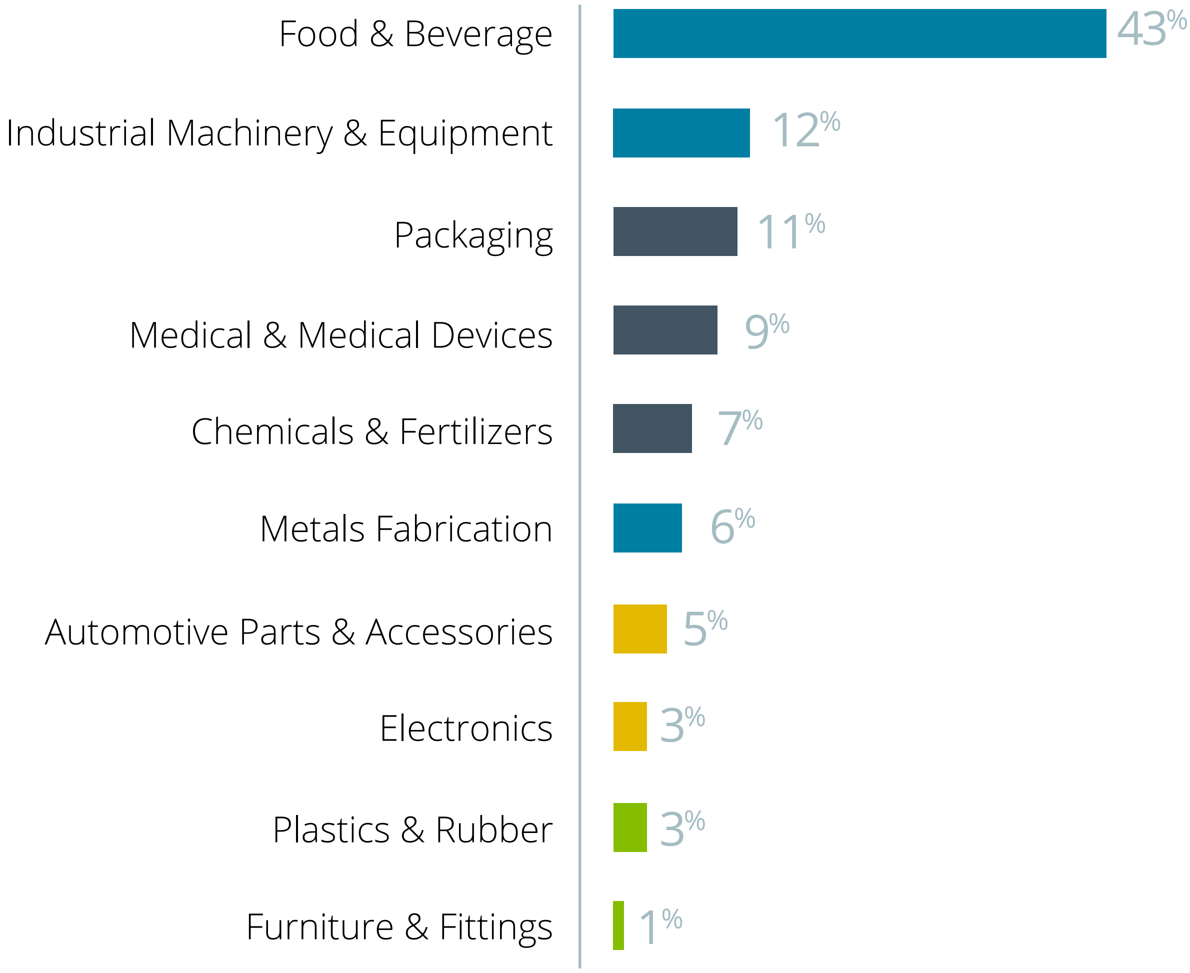
Kenya and COVID-19

Kenya at a glance

According to the Kenya Economic Survey 2021, published by the Kenya National Bureau of Statistics, the performance of the manufacturing sector in 2020 was adversely affected by a broadly-felt slowdown of economic activities, largely due to measures instituted by the government to curb the spread of COVID-19. These measures have resulted in a reduced demand for manufactured products locally and internationally. The sector's real value added contracted by **0.1%** compared to a growth of **2.5%** in 2019.

As a largely Food and Beverages producer (**43%**), Kenya affords global financial leaders a valuable snapshot into the state of the primary goods sector – both locally and, perhaps, across the African region as a whole.

Industry make-up

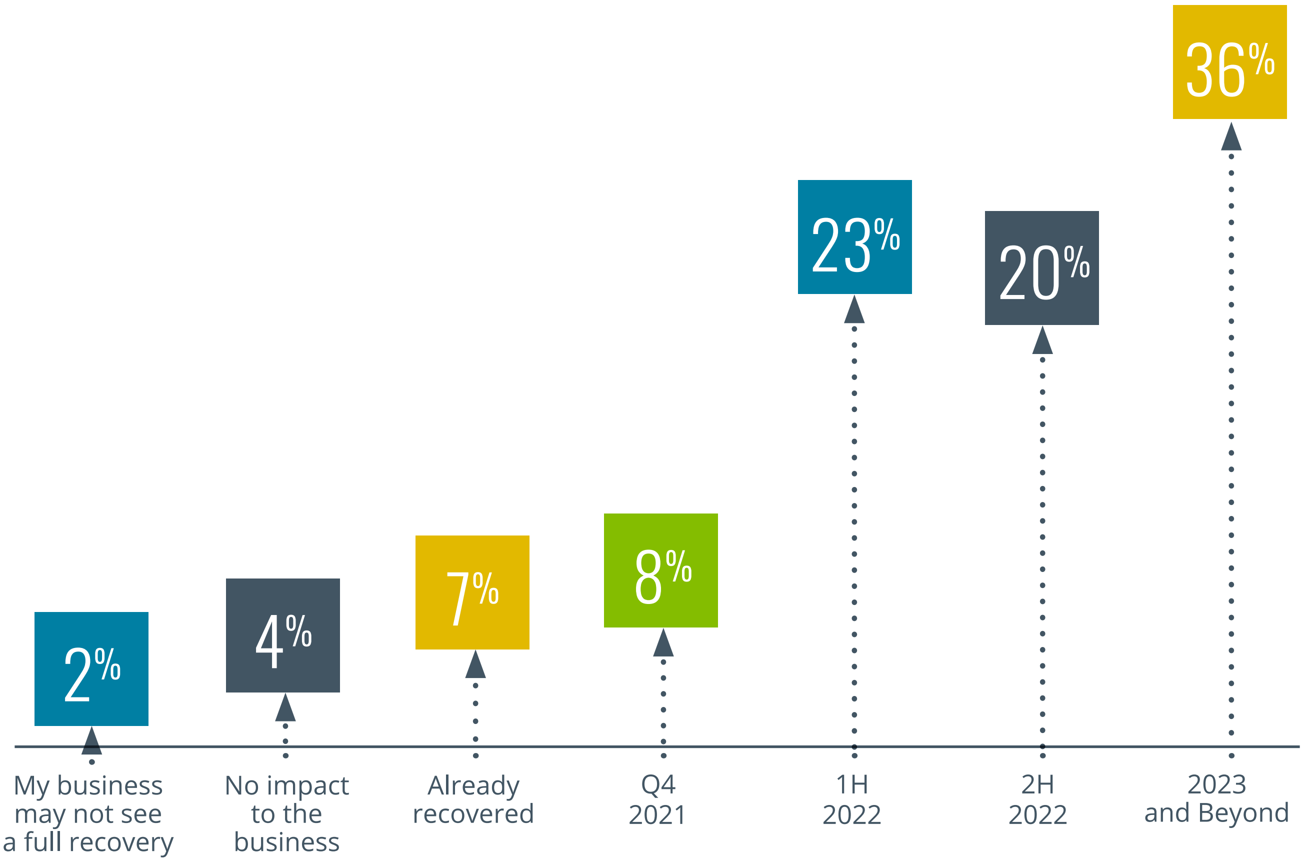


This sector alignment is a fortunate position for the Kenyan Manufacturing and Distribution sector to find itself in, as, internationally, Food and Beverages felt less of a financial hit than its secondary and tertiary sector peers. In fact, according to the Kenya Economic Survey 2021, the Food and Beverages category grew by **14.3%**, becoming the dominant category accounting for **46.4%** of the total domestic exports in 2020. The increase was on account of growth in the value of both primary and processed food and beverages – both for industry and household consumption.

However, tumultuous supply chains – with transport and sourcing of raw materials being hindered by lockdown restrictions, border closures and other COVID-19 containment measures present a unique challenge to the sector. This business uncertainty has meant that many companies have had to significantly scale down operations and production.

As a result, business is greatly affected. This is evident as only **7%** of the businesses surveyed expressed an "already recovered" trading environment today, and **36%** now seeing 2023 and beyond to be the year in which their businesses will stabilize.

When do you expect your business to return to pre-pandemic trading conditions?



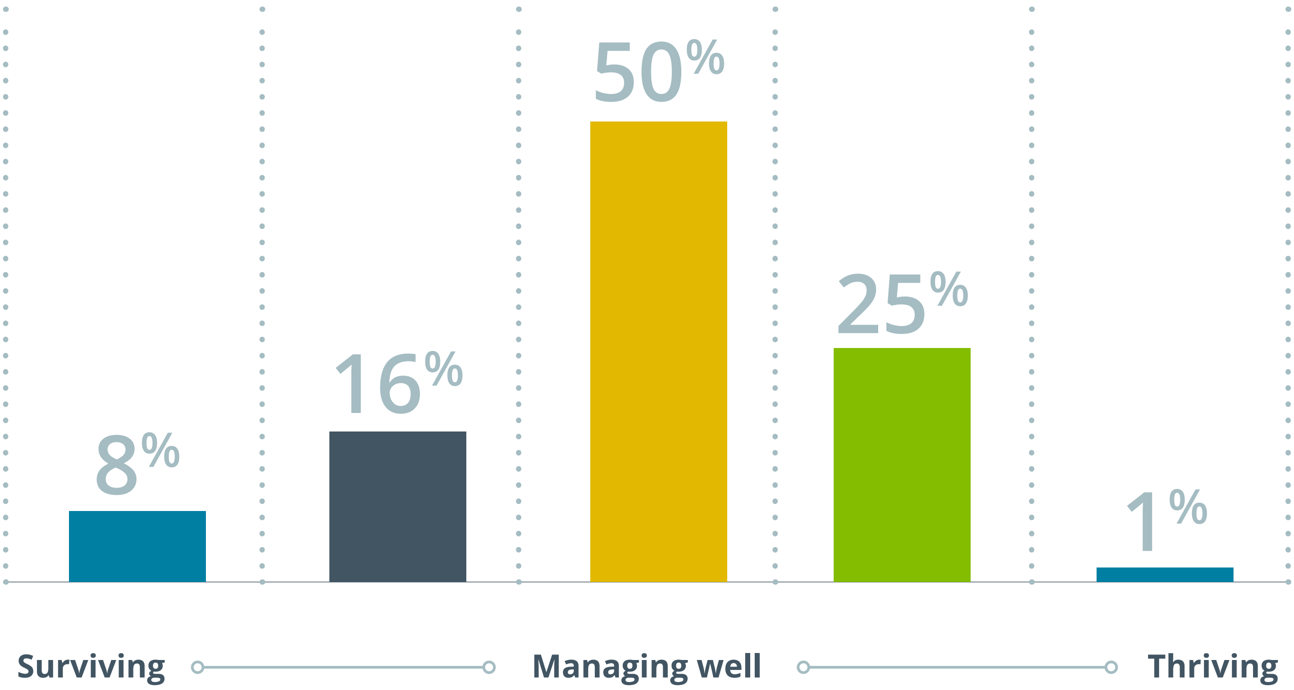
The indication, therefore, is that Kenya still has some way to go; a road that must be navigated by future-focussed financial leaders that are happily already casting an eye towards tomorrow's best practices.

Fortunately, the vast majority of these businesses fall into the medium to large range, meaning that resources would have been made available throughout the hardest months of the pandemic by international stakeholders.

A challenging climate

While optimism may remain high, companies expressed mostly fair-trading climates in 2021 at **50%** - with only **1%** acknowledging "Thriving" conditions. Despite their size then, few have been able to transition into a newer, more agile trading paradigm.

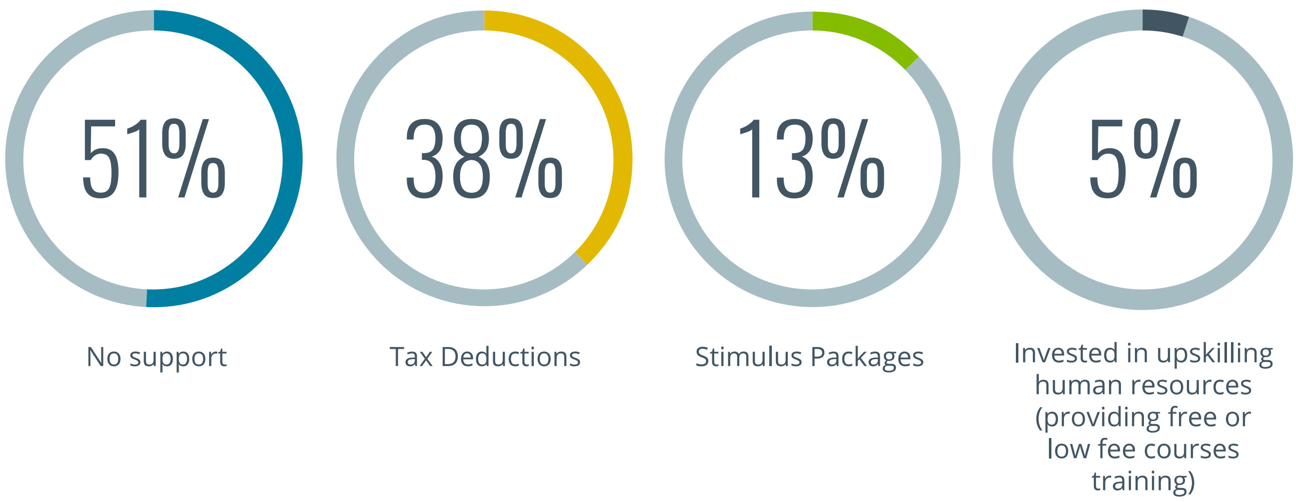
How business has fared throughout 2021



Several factors are likely to have contributed to this phenomenon, with the availability of stimulus packages standing right near the top.

While it has been noted that government has provided several key policy adaptations – including fiscal interventions – to assist Kenyan businesses with managing their margins, actual stimulus was less of a feature. As of the results of this survey, **51%** of Kenyan businesses in Manufacturing and Distribution received none, **38%** received tax deductions, and only **13%** noted the reception of a comprehensive stimulus package.

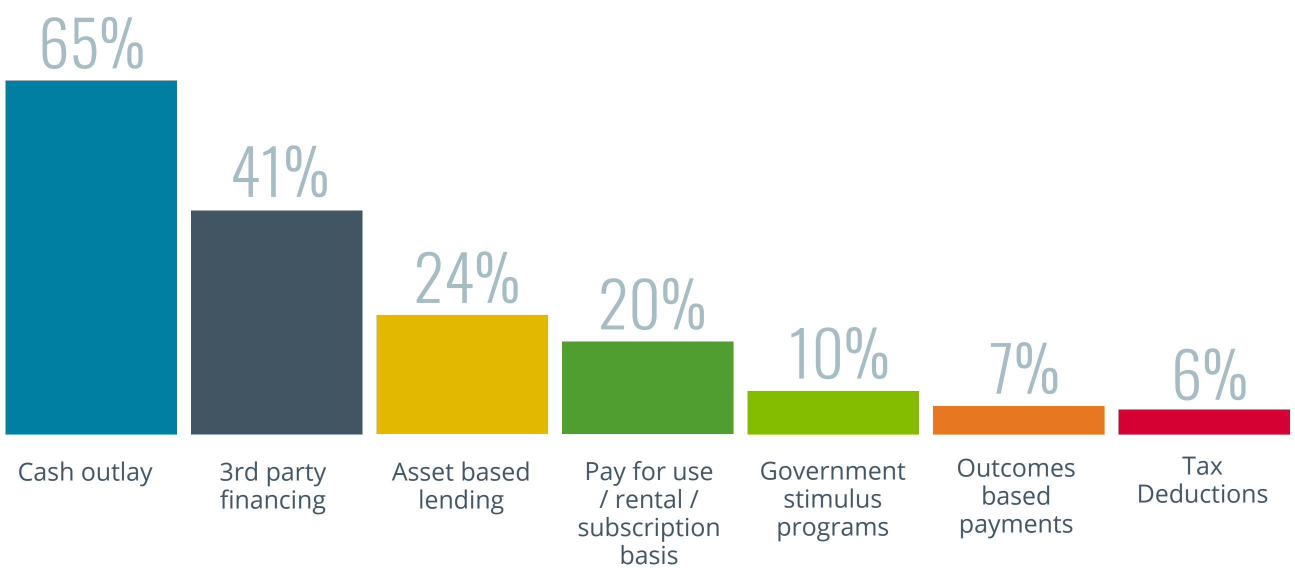
Over the past 18 months, how has your government supported your business?



Internationally, these packages have been invaluable in bolstering companies' ability to adapt to the new challenges of COVID-19. Moreover, they have been fundamental in expediting moves towards greater diversification.

We see, as a consequence, that Kenya has had to fund their diversification out-of-pocket, greatly influencing a more hesitant uptake.

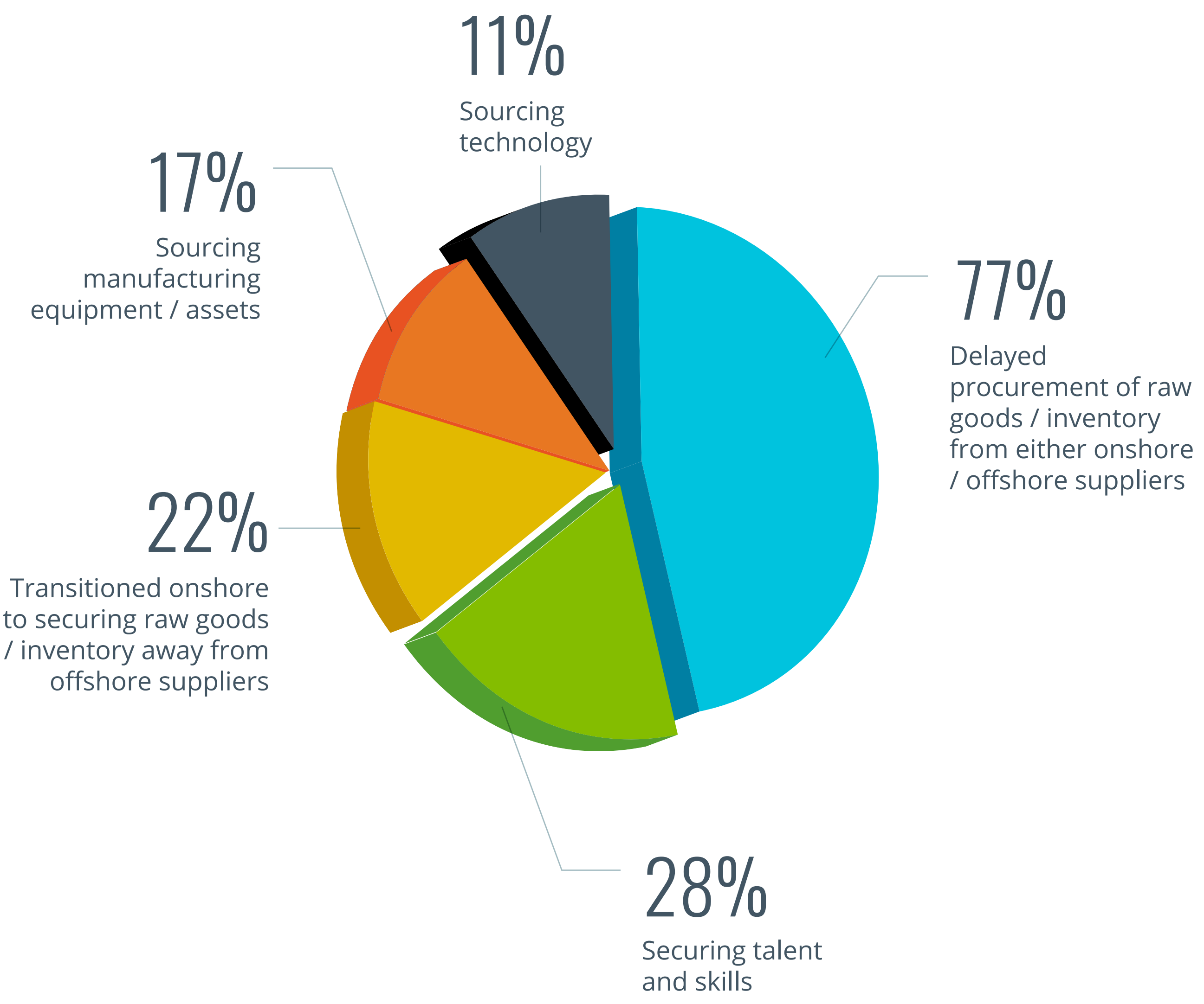
How do you plan on funding these investments?



Supply speak and other needs

Kenya's biggest disruption, unsurprisingly, has been the Delayed Procurement of Raw Goods, at **77%**. While it is clear that Kenya primarily operates in the Food and Beverages sector, shortages of raw materials have certainly been a factor for other industries in the region too.

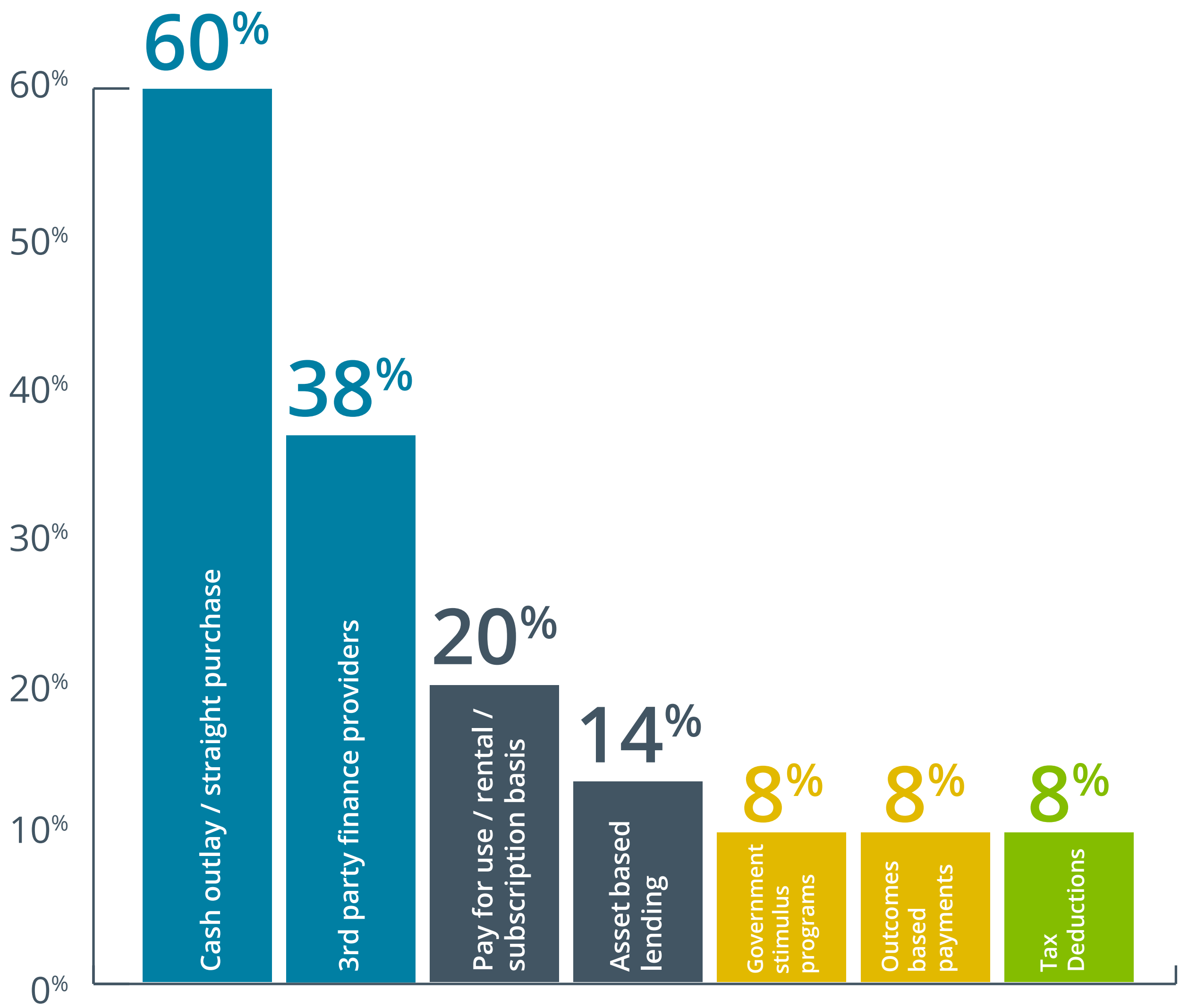
For most manufacturing businesses, there has been somedegree of disruption to your supply chain over the past 18 months. Where have you seen the most disruption?



While supply chain hurdles are nothing new in the global market, Kenya's unique position as a primary goods manufacturer means that the effects would be felt harder.

Innovation would be a likely solution to these issues. However, when looking at the region's spending structures, we note another obstacle: **60%** of Kenyan businesseshave aimed to support new initiatives through Direct Purchase, dwarfing other means such as 3rd Party Financiers (**38%**) and Pay for Use Subscriptions (**20%**).

How did you fund these technology and digital transformation initiatives over the past 18 months?



This places Kenya on an uneven playing field from a global perspective as, internationally, most companies were able to expand through the help of stimulus packages and incentives. The challenge, however, is being met in other ways.

02

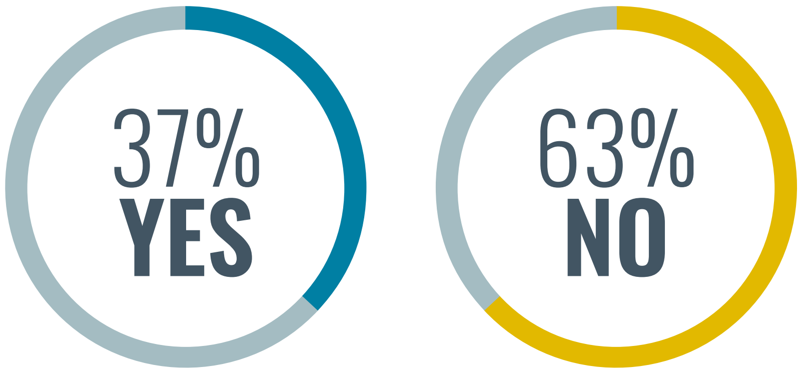
Operations & aspirations

Kenya in the age of innovation

It is said that "Necessity is the mother of invention", but sometimes one does not need to reinvent the wheel.

Over the past two uncertain years, the study revealed that Kenyan manufactures moved towards more traditional contingency measures as a means of maintaining stability. We see now that roughly **37%** of Kenyan businesses elected to diversify as a direct result of the pandemic (just over half of the global average).

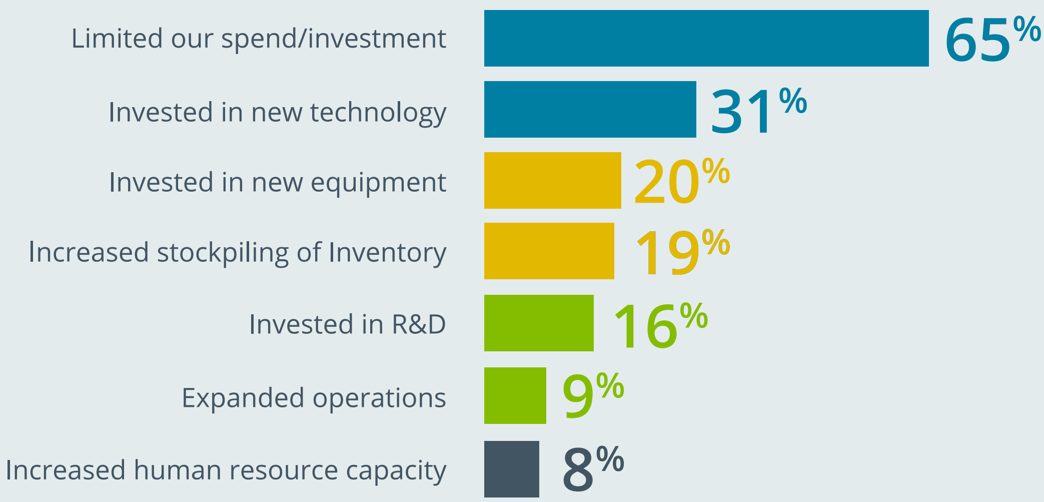
Did your business diversify as a result of the pandemic?



A strong focus on tradition

This then stands in contrast to the trend: While global financial leaders have pushed for expanse through continued expenditure (**65%**), Kenya has elected to place its faith in older stock.

Over the past 18 months, where has your business focused on spending?



To this point, we see the region currently utilizing traditional cost-cutting as its main contingency measure, with the curbing of discretionary expenditure being most prominent (at **71%**), followed by Debt Collection (at **41%**). Interestingly, and unsurprisingly when the above is considered, the expansion of revenue models only rank a low third on the list (at **33%**).

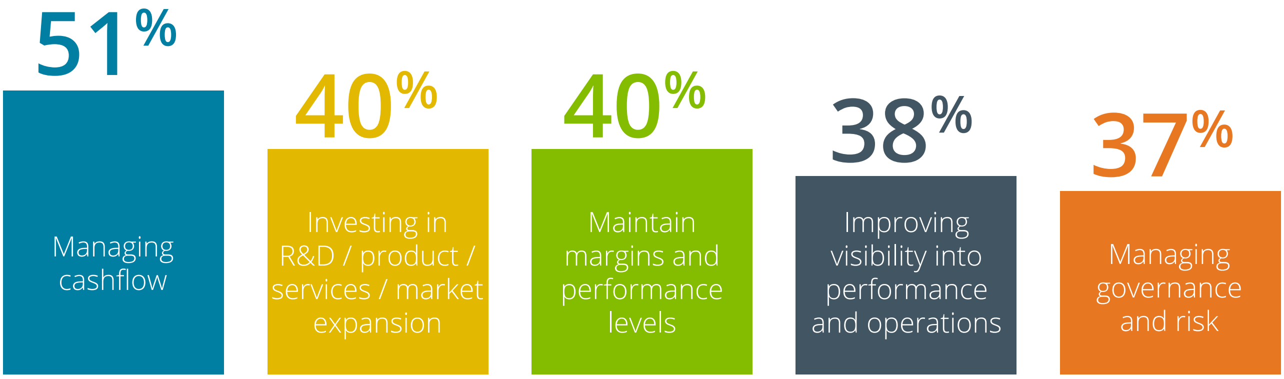
What strategies are you currently using to reduce costs and free up Cash Flow?

Is adaptation appropriate?

Kenya's success exists despite its slow uptake of diversification, which stands in contrast to the global trend. Notwithstanding, financial leaders in the region feel innovation is a necessary endeavor.

While Managing Cashflow remains Kenya's biggest business priority for 2022 (**51%**), Investing in Research and Development (R&D) and New Products and Services are considered to be essential (both at **40%**). What seems to be true is that logistical and resource constraints have, up until now, impeded moves into more future-focussed spaces.

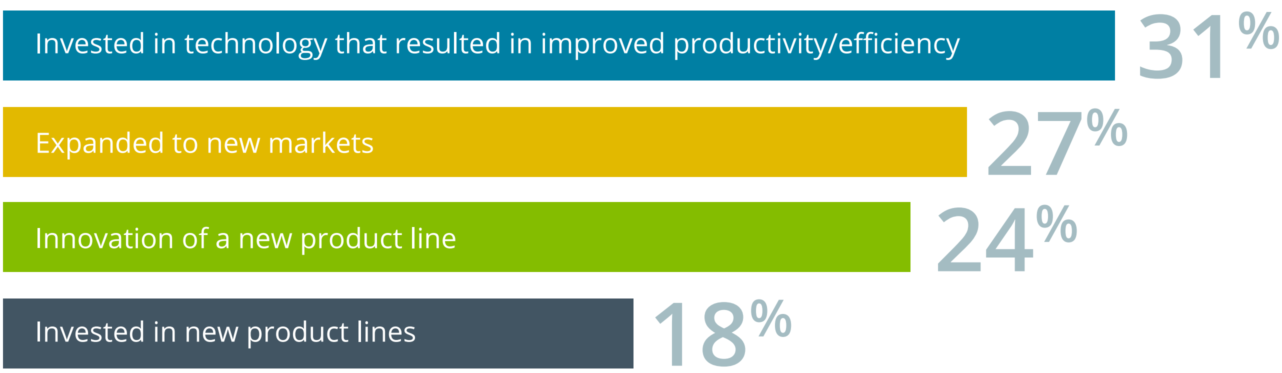
What are your top 5 business priorities for 2022?



That said, Kenyan expertise has appropriately fallen back on tried and tested solutions in the interim. This, coupled with the particular pressures that the global supply chain hurdles place on the Food & Beverages sector, we see Kenya implementing contingency best-practices today as opposed to tomorrow.

Those who did diversify did so as follows:

How did your business diversify as a result of the pandemic?



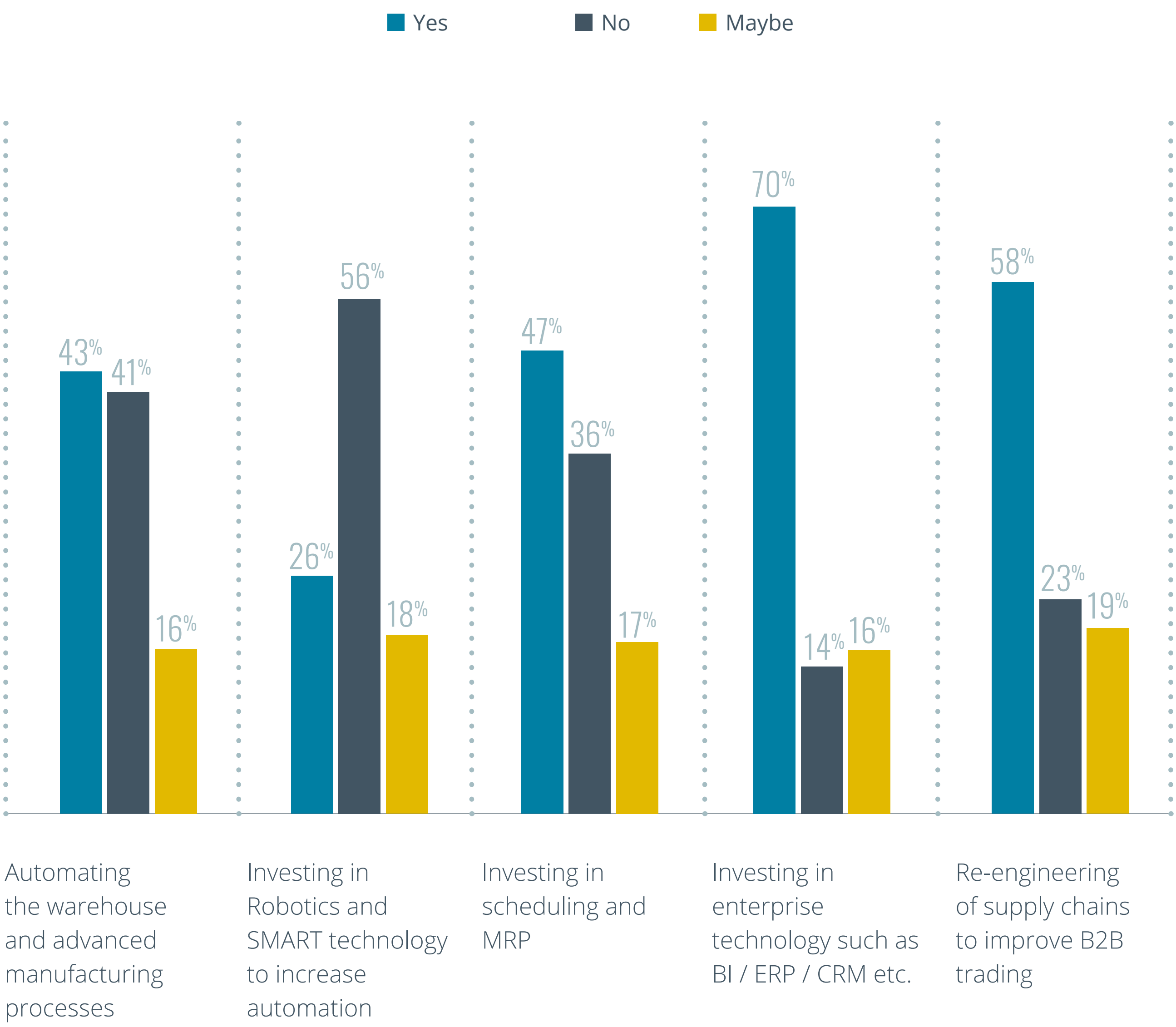
Still, Kenyan expertise has appropriately fallen back on predominantly tried and tested solutions in the interim. Couple this with the particular pressures global supply chain hurdles place on the Food & Beverages sector, and we see Kenya implementing contingency best-practices today.

The Kenya of tomorrow

Kenya's financial future is far from set in stone. As already established, Kenyan financial leaders are "all-aboard" for diversification – at the very least from an imperative perspective. And action is starting to be taken.

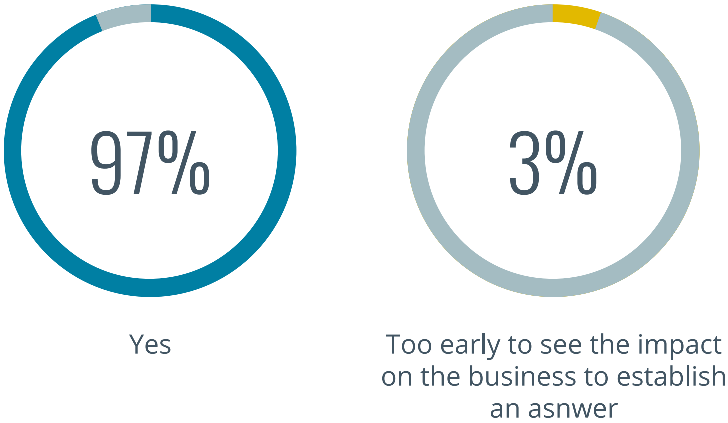
Those eager to diversify largely favored Enterprise Technologies, with **70%** committing to taking on BI, ERP, ERM, and related systems. Expectedly, the re-engineering of supply chains to improve business-to-business (B2B) trading comes in at number two, with **58%** earmarking its importance. This is a natural result of Kenya's dependency on raw materials for Food & Beverage production.

Which strategies are you using to generate operational efficiencies?



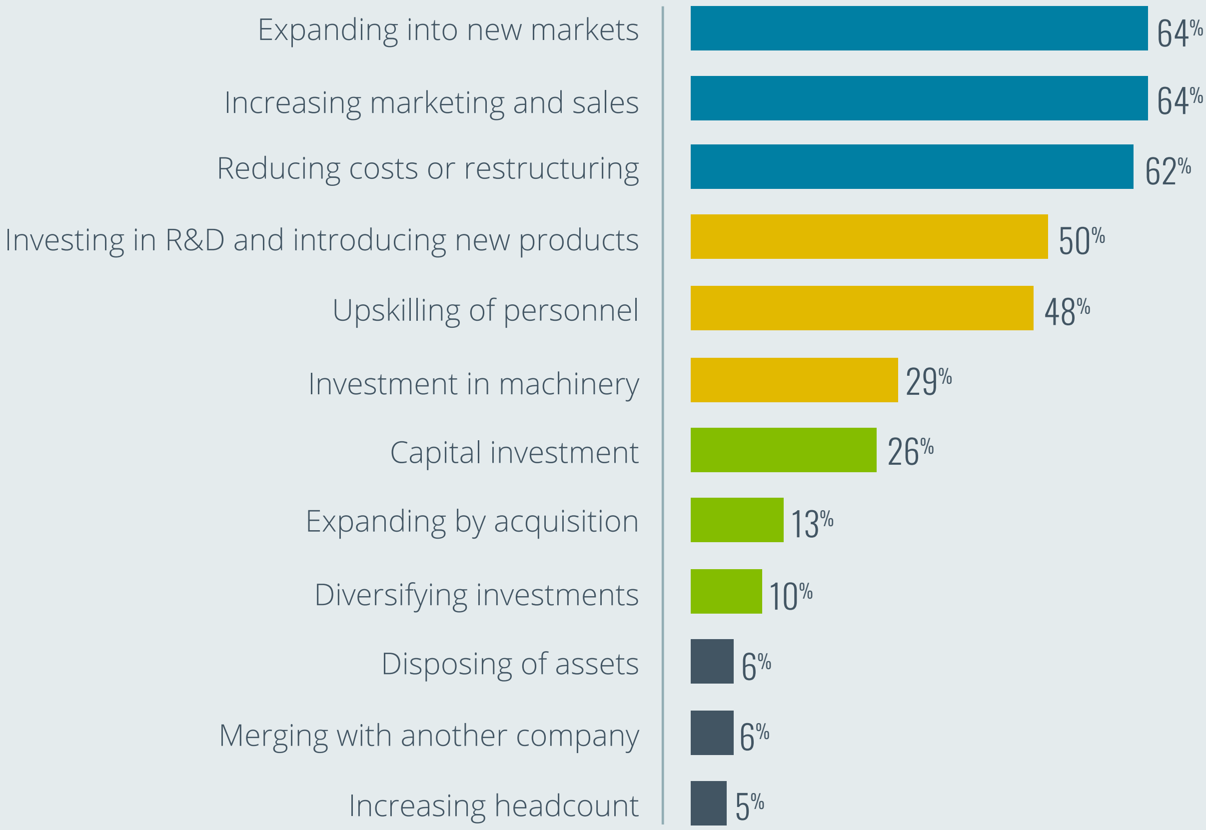
Indeed, the scope of Kenya's next few years shows an impending pivot away from current policies. Kenya and The East African region clearly has an eye for innovation, with **97%** of those businesses who did diversify stipulating that these new initiatives will be supported past the pandemic.

Will you continue to support these new initiatives



Equally interesting is the region's projected 5-year focus plan, with **64%** of those surveyed now looking at expanding into new markets for the medium-term. This is matched by **64%** wishing to increase marketing and sales, articulating a growing acknowledgment of the onus of adaptation.

Over the next 5 years, which areas of the business will you be looking to focus on?

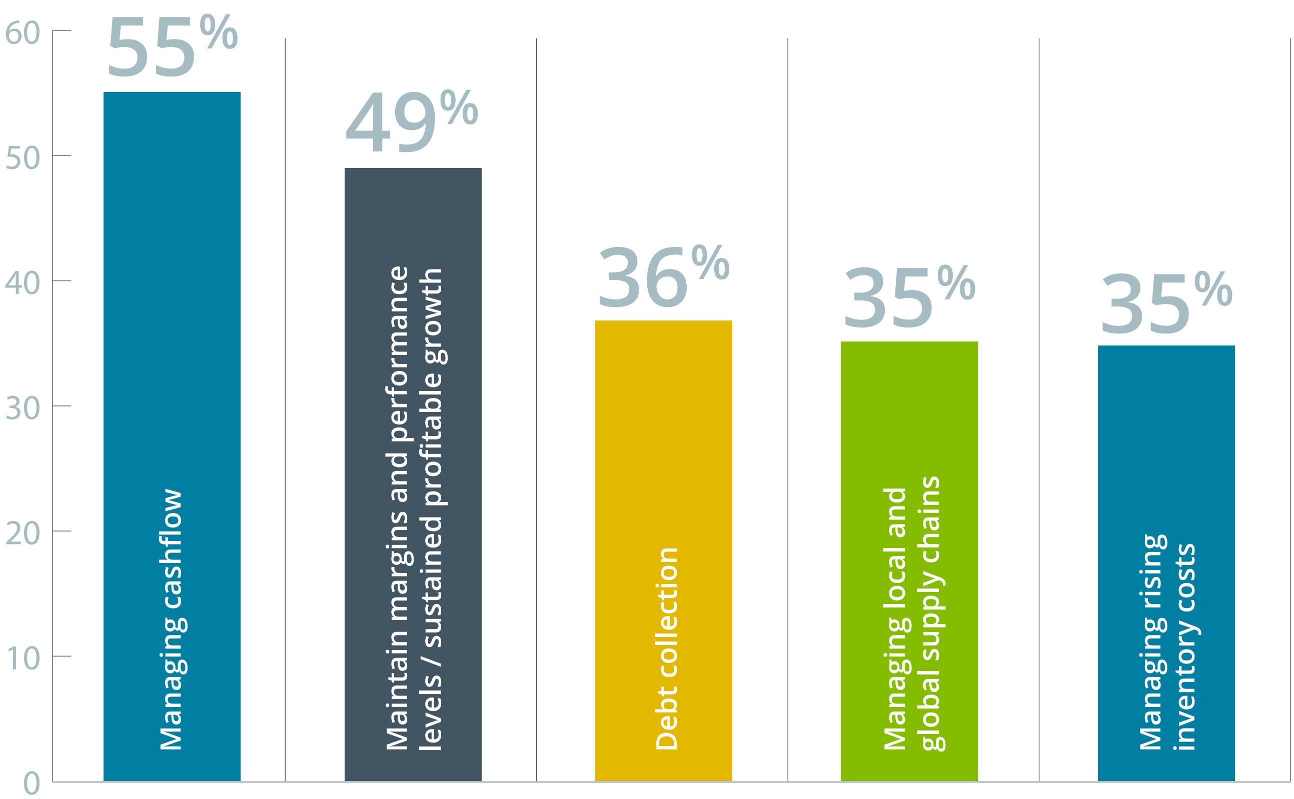


The uptake may be slower than has been seen abroad, yet the mentality remains the same: Innovation is essential. Thus, 2022 will prove to be a particularly telling year for the state of the Kenyan Manufacturing and Distributions industry. While SMART technologies are unlikely to shift operational fundamentals (as seen in North America and Europe), a new shift is starting to start taking hold management through enterprise technology systems and MRP – a necessary step towards meeting the international mandate for adaptation.

An eye towards risk

2022 and beyond should prove to be both an exciting and challenging time for Kenyan business in equal measure. Predicted risk matches current trials fairly consistently, with the management of cash flow, maintenance of margins, and reliability of debt collection breaching the top three concerns (at **55%**, **49%**, and **36%** respectively).

The top risks for 2022

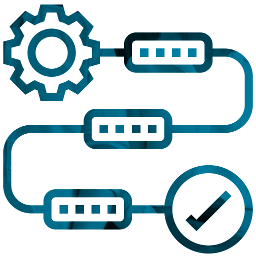


Interestingly however is the fact that managing local and global supply chains only rank at number four (at **35%**), either articulating a slow return to healthier trading climates or optimism for the introduction of new management systems.

Process, process, process

In terms of bottlenecks, Kenya (like the rest of the world) ranks Process as its number one disruptor. Ranking at **44%**, it continues to edge out People and Product at **30%** and **26%** respectively.

Today's biggest bottleneck



Process

44%

People

30%

Product

26%

Likely exacerbated by the aforementioned supply chain obstacles currently being experienced, it stands to reason that operational logistics have become a key focus for the Kenyan region. While maintaining margins as a cost-cutting exercise helps to alleviate the burden of this bottleneck, it can only serve as a short-term solution.

As such, companies are now turning their attention to enterprise technologies (such as ERP) as a means of ensuring greater managerial ability. These systems can radically optimize the roles and responsibilities in business, allowing for a shift in focus from the procedural to the analytical; a more long-term solution that is also capable of freeing up resources to support profitability.

The growing war for talent

Administerial and organizational evolution comes with the cost of urgent upskilling. As new systems require the onboarding of new skills to be operated effectively, Kenya must remain cognizant of the growing shortage of experienced employees as it gradually moves towards more diverse operations.

This is not necessarily a requirement inherent in ERP, but rather a more broadly recognized truth across the full scope of business innovation.

As noted in the SYSPRO Manufacturing CFO 4.0 Global Survey, Product as a bottleneck is down by **12%**, with People rising by **9%** globally – particularly on the African continent, in part due to high levels of retrenchment.

This may prove a challenge in the medium- to long-term for for Kenya in its race to stay competitive with its global peers.

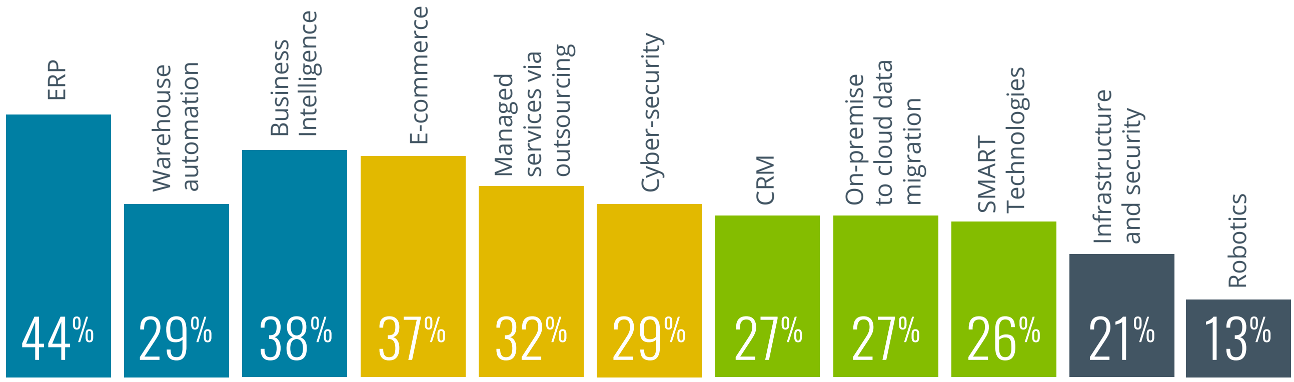
03

The digital desire

ERP as COVID-relief

As noted above, ERP is enjoying a positive response in Kenya, with **44%** of those surveyed expressing a desire to invest and migrate. Warehouse Automation trails just behind at **39%**, and Business Intelligence following at **38%**.

Over the next 5 years, which technology and digital transformation initiatives will you invest in?



These findings are both in line with and appropriate to the unique challenges faced by the region. As an effective digital managerial tool, ERP affords its users the ability to not only confidently pivot in times of crisis and streamline the efficiency of their operations.

This is particularly invaluable to Kenya given the importance of raw goods and materials to a primarily Food & Beverage producing region struggling with global supply chain issues. While ERP is not able to magically resolve tumultuous trading, it does consolidate important data in real-time, expediting faster decision-making.

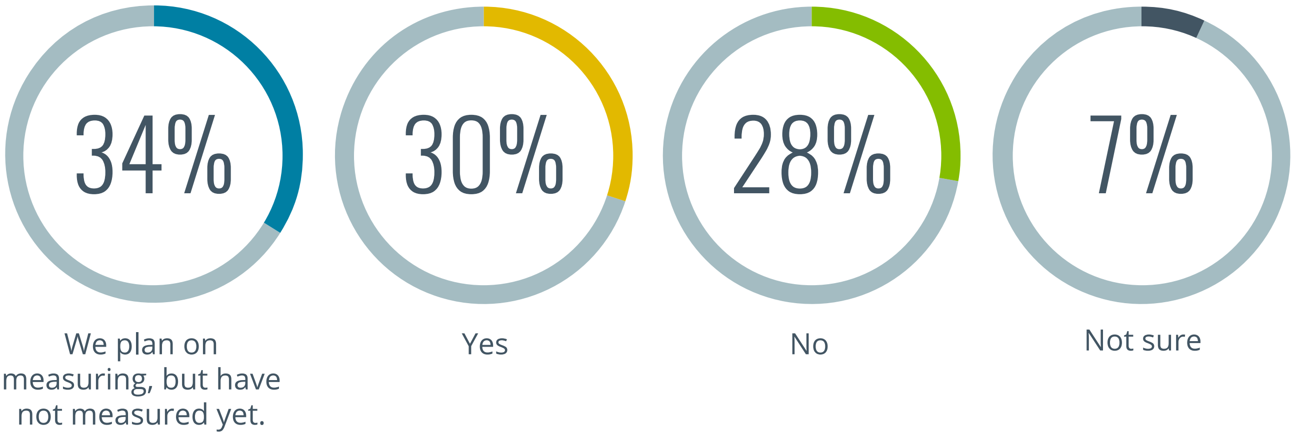
Furthermore, it is an ideal pre-emptive counter to growing People bottlenecks, as it is able to optimize the roles and responsibilities in business, resulting in a more efficient use of human resources and a removal of lingering redundancies.

An effective solve for less-than-efficient times.

The road to digital return on investments

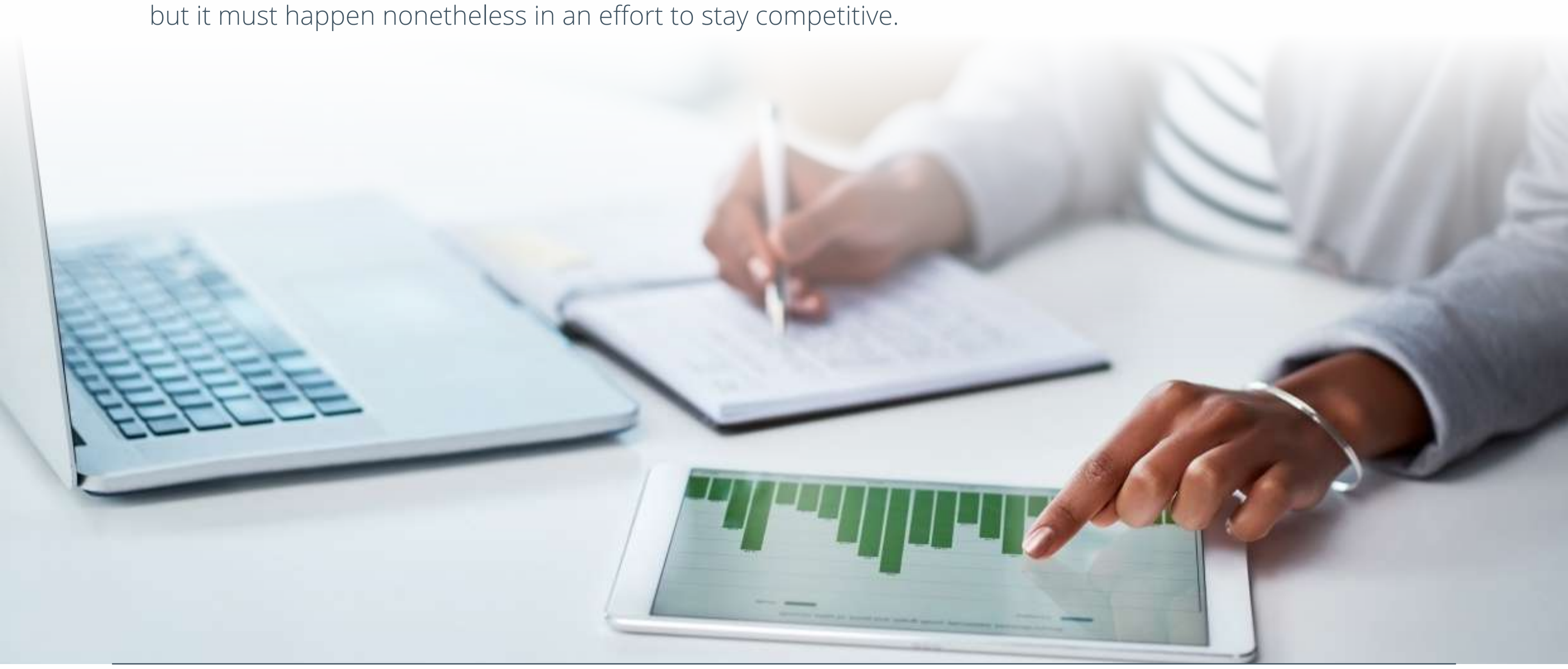
Interestingly, as many as **41%** of Kenya's Manufacturing and Distribution financial leaders have yet to record their digital return on investments – with **7%** not being sure if any were received and **31%** still planning on investigating.

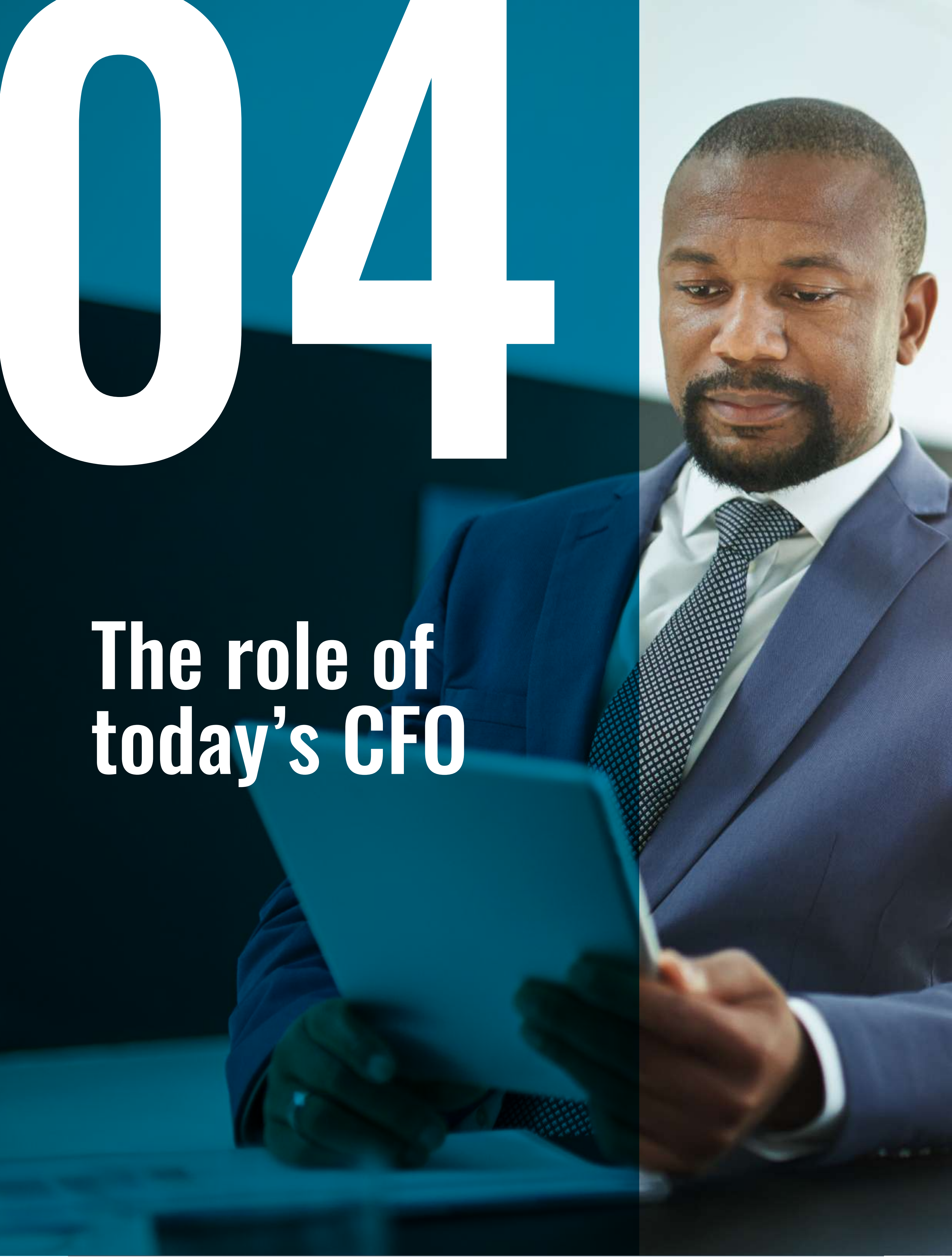
Did you get any payback / ROI from your digital investments in the past 18 months?



In terms of results, it has been a bit of a mixed bag, with **30%** receiving returns and **28%** not. The indication, therefore, seems to be uncertainty in the realm of digital ROI which does explain its slower uptake across the country.

That said, it is important for the region to keep at least one eye on this space. With the impetus displayed by Kenya's international peers, the onus is fast becoming one of digital renovation. Change may happen slowly but it must happen nonetheless in an effort to stay competitive.





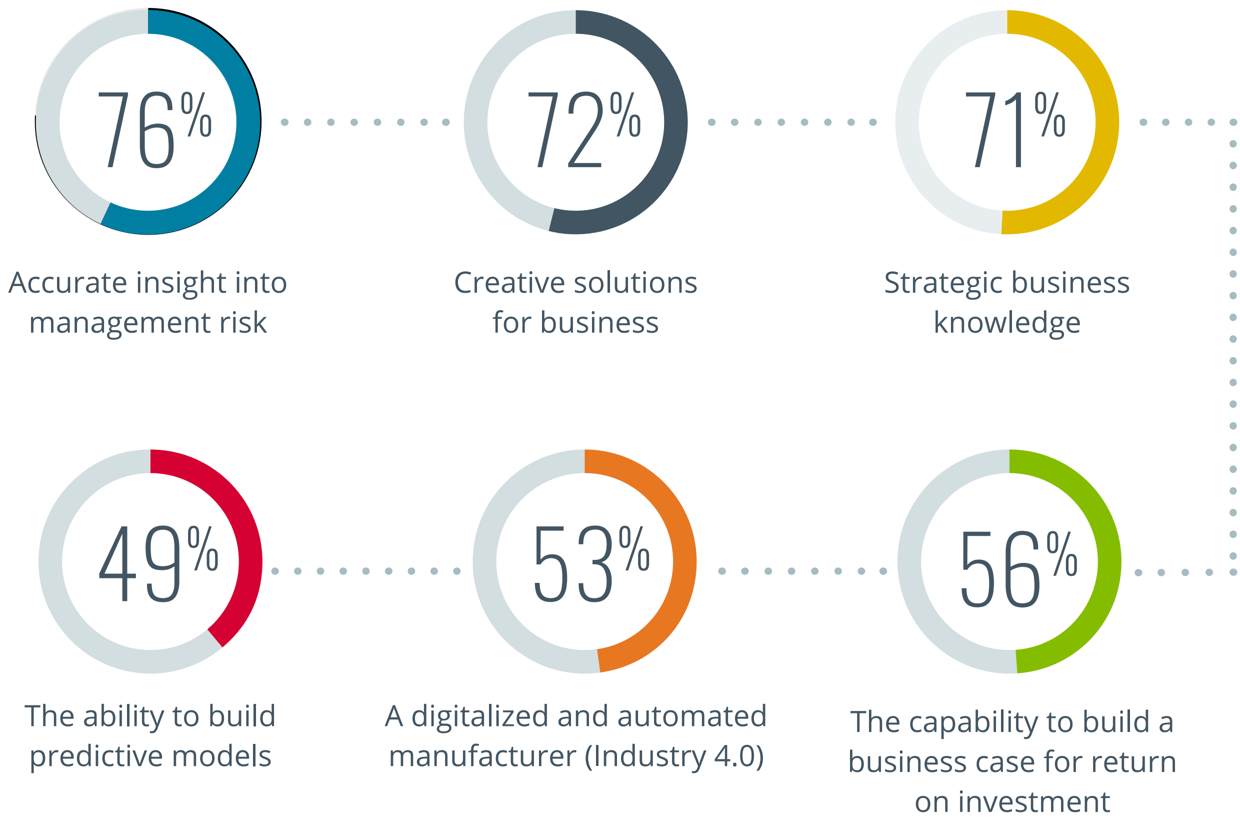
04

The role of today's CFO

An eagerness to take the helm

The consensus on modern CFO skills in Kenya remains consistent with the global perspective. COVID-19 has served as a valuable reminder of the importance of risk management and an aptitude for business strategy. Unsurprisingly, Kenyan financial leaders recognize these same skills as the keys to success.

Where do you believe the investment into the modern CFO 4.0 skills and competencies need to develop to ensure business remains competetive?



Those interviewed listed Accurate Insights into Risk Management as the main skill needed for future CFOs in the region (**76%**), with a Comprehensive Understanding of Finance and Strategic Business Knowledge trailing just behind (**72%** and **71%** respectively).

These findings align with the growing global sentiment that financial leaders must begin to assume greater leadership roles within their respective organizations. Now more than ever, the onus is on them to navigate CEOs and other stakeholders through these tempestuous times.

The evolution is happening cautiously, but it is happening all the same, and like other CFOs from across the globe, Kenyan financial leaders understand that the shift is coming in the pursuit of greater profitability for their Manufacturing and Distribution sector.

The way forward

Anticipate a digital future

Yes, it is easy to feel dissuaded or disconcerted in the face of so many fundamental shifts, but the modernization of process and protocol stands head-and-shoulders above the rest as an effective means of combating the challenges presented in 2020. Nurture new familiarities and accept that your agility will be key to surviving the next five years.

Understand the global change

Flexibility is the defining feature of the global post-COVID financial world. Through the processes of diversification and adaptation, global financial leaders are finding more favorable trading environments that look to settle in for the long term. To remain competitive, Kenya must match the methodologies of its peers with their own.

But also understand regional idiosyncrasies

Key savings opportunities are never a ubiquitous phenomenon. Neither is the availability of resources. Kenya's success to date, despite going against the grain, can therefore be attributed to the regions' financial leaders understanding its own unique potential and challenges. To this end, we see the importance of regional awareness; a qualitative resource that can never be imitated. Nurture it.

Remember that people equal profit

The right people are going to make major inroads in the years to come. As Kenya begins to adapt to the impending digital future, upskilling will become essential. It is important then to get ahead of the curve by upskilling sooner rather than later so as to avoid an inevitable skill-shortage vacuum. Today's mantra is quality over quantity.

Conclusion

Kenya stands apart when compared to the global playing field. As a primarily Food and Beverage producer, it stands to reason that Kenya’s contingencies align more closely with traditional cost-cutting techniques and improving their supply chains. Naturally, discrepancies are to be expected.

Its success is, therefore, indicative of the importance of understanding regional nuance. While global financial peers insist on rapid diversification as a COVID-19 countermeasure, Kenya’s ability to weather the storm through more traditional means proves that there is no one-size-fits-all solution.

Still, the drive for digital diversification will affect the country’s Manufacturing and Distribution sector in other ways. As we enter Industry 4.0, the lasting policies fielded across the globe will necessitate migration from Kenyan business. Happily, innovation has begun to take place.

Now it falls onto Kenya’s financial leaders to keep up the momentum, while balancing this drive with the current regional policies, challenges and nuances noted above.

Fortunately, it would seem that Kenya’s financial leaders see this the same way. There may still be work to do, but the future is looking remarkably promising.

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