

**The development of a suitable strategy for  
a company through strategic analysis and  
review.**

by

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the degree of

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# Confidentiality Clause

September 2003

To whom it may concern

## Re. Confidentiality of this study

Due to the strategic importance of this research and the confidential nature of the facts contained herein, it is requested that the contents remain confidential and not be circulated. It is further requested that the period of this confidentiality be 10 (ten) years.

Sincerely,

*J.M. Simmons*

## Declaration

I, John-Mark Simmons, student number 951956741, hereby confirm that this research has not been previously accepted for any degree and is not being currently submitted in candidature for any degree.

*J.M. Simmons*

September 2003

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*John-Mark Simmons*



# Abstract

The following is an exploratory study, of a newly formed company called Duys Aftermarket Components (D.A.M). D.A.M was formed out of Duys Component Manufacturers (D.C.M) a division of The Duys Group. The reason for forming D.A.M came about due to an environmental change. Toyota was D.C.M's main client and the whole business was geared around them, until Toyota announced that they would no longer be fitting bull bars and roll bars (D.C.M's core products), at factory level. So, in do or die mode, D.A.M was formed to focus attention on the automotive aftermarket, to find clients for the products that the company was so proficient at making, while D.C.M attempts to find new products for the Toyota factory.

This study follows a gap analysis type approach. First, the theoretical ideal is laid out and discussed in detail. Next, facts pertaining to D.A.M and its environment are gathered in the form of a case study. Matching these two sections together allows an analysis of the changed environment and of the company's resources and internal workings. From this analysis, strategic models are created and grand strategies formed which are then tested for suitability against the same internal and external factors previously discussed. From the grand strategies, the study generates more specific courses of action as options for the management of Duys to consider. These are optional ways in which the management might consider breaching the gap between the theoretical ideal laid out and the current situation.

The expectation is that the research will develop a workable strategy for the management of Duys to work with and to build on, in an emergent fashion.

## TABLE OF CONTENTS

ITEM	PAGE No.
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ABSTRACT

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

### Chapter One

#### Research Proposal

1.1	Introduction	1
1.2	Background and context	1
1.3	Motivation of the research	6
1.4	Value of the study	7
1.5	Problem statement	7
1.6	Objectives of the study	8
1.7	Research methodology	8
1.7.1	Research design	8
1.7.2	Data collection	9
1.7.3	Secondary data collection	9
1.7.4	Primary data collection	9
1.7.5	Data analysis techniques	10
1.8	Limitations of the investigation	10
1.9	Structure of study	11
1.9.1	Chapter two	12
1.9.2	Chapter three	12
1.9.3	Chapter four	13
1.9.4	Chapter five	13
1.10	Summary	14

## Chapter Two

### Strategy development in theory

2.1	Introduction	15
2.2	Mission, vision and purpose	17
ANALYSIS OF THE EXTERNAL ENVIRONMENT		
2.3	General considerations from the remote environment	18
2.4	P.E.S.T	19
2.4.1	Political factors	19
2.4.2	Economic factors	19
2.4.3	Socio-cultural environment	20
2.4.4	Technological environment	23
2.5	Porter's five forces analysis	24
2.5.1	Supplier bargaining power	25
2.5.2	Buyer bargaining power	25
2.5.3	Threat of new entrants	26
2.5.4	Threat from substitutes	27
2.5.5	Levels of existing rivalry	27
2.5.6	Using Porter's model	29
2.6	Key factors for success	29
2.7	Dominant industry characteristics	31
2.8	Driving forces	31
2.9	Customer analysis	33
2.10	Competitor analysis	34
2.10.1	Competitive intensity	34
2.10.2	Competitor profiling	35
2.10.3	Strategic group mapping	36
INTERNAL ANALYSIS		
2.11	Resource Audit	38
2.11.1	The management audit	39
2.11.2	The marketing audit	42

2.11.3	The financial audit	43
2.11.4	The production audit	43
2.11.5	The research and development audit	44
2.12	Value chain analysis	45
2.13	Comparative analysis	49
2.13.1	Historical analysis	49
2.13.2	Comparison with industry norms	49
2.13.3	Best practice analysis	50
2.14	Assessing the current strategy	50
2.15	Core competencies	51
2.16	S.W.O.T analysis	52
DEVELOPING STRATEGIC OPTIONS		
2.17	Environment based options	54
2.17.1	Porter's generic options matrix	55
2.17.2	Success within segments matrix	56
2.17.3	Market options matrix	58
2.17.4	Expansion method options	65
2.18	Resource based options	66
2.18.1	Value chain options	66
2.18.2	Resource based view	66
2.18.3	Cost reduction options	67
ASSESSING SUITABILITY		
2.19	Life cycle analysis	69
2.20	Positioning	71
2.21	Value chain analysis	71
2.22	Portfolio analysis	72
IMPLEMENTATION OF STRATEGY		
2.23	People and strategy	73
2.24	Structure and strategy	73
2.25	Budgets and strategy	74
2.26	Policies, procedures and strategy	74

2.27 Best practices	75
2.28 Total quality management (T.Q.M)	75
2.29 Some practical steps	76
2.30 Summary	78

## Chapter Three

### A case study of the company

3.1 Introduction	80
3.2 Background and history	80
3.3 Mission of the Duys Engineering Group	82
3.4 Stated Key Objectives by 'The Duys Group'	82
3.4.1 World Class Quality	82
3.4.2 Global Competitive Cost	83
3.4.3 Stable Production	83
3.5 Duys Transport	84
3.6 Duys Component Manufacturers (D.C.M)	84
3.7 Duys Components' mission statement	85
3.8 D.C.M's mission directed work teams	85
3.9 D.C.M to divisionalise to meet motor industry's requirements	89
3.10 Suppliers	91
3.11 An interview with Autotec	92
3.12 Customers	94
3.12.1 An interview with Johan Burger of Macarthy Toyota	96
3.12.2 Dealerships	98
3.12.3 Specialised 4 X 4 Centres	101
3.13 The competition	104
INTERNATIONAL COMPETITION	
3.13.1 TJM Products	105

3.13.2	ARB	108
LOCAL COMPETITORS		
3.13.3	MAXE	111
3.14	Resources	113
3.15	Technical people	116
3.16	Management and leadership	118
3.17	Brand equity	120
3.18	Current strategy	121
3.19	Summary	123

## Chapter Four

### Analysing and developing suitable grand strategies for the company

4.1	Introduction	125
EXTERNAL ANALYSIS		
4.2	PEST analysis	126
4.2.1	Political environment	126
4.2.2	Economic environment	127
4.2.3	Socio-cultural	131
4.2.4	Technology	132
4.3	Porter's five forces analysis	133
4.3.1	Supplier Power (A strong force)	133
4.3.2	Buyer Power (A strong force)	134
4.3.3	Threat from new entrants (A medium risk)	134
4.3.4	Threat from substitute products (A low risk)	135
4.3.5	Levels of existing rivalry (A high threat)	135
4.4	Key factors for success (K.F.S)	137

4.5	Dominant industry characteristics	140
4.6	Driving forces	140
4.7	Distribution channels	141
4.8	Customer analysis	144
4.9	Competitor analysis	146
INTERNAL ANALYSIS		
4.10	Resource Audit	153
4.10.1	Physical resources - Production lines	153
4.10.2	Human Resources - Technical people	155
4.10.3	Intangible Resources and brand equity	155
4.10.4	Functional Audit	155
4.11	Value chain analysis	161
4.11.1	Support activities	161
4.11.2	Primary activities	162
4.12	Assessing the current strategy	163
4.13	Core competencies	165
4.14	S.W.O.T analysis	165
GENERATING STRATEGIC ALTERNATIVES		
4.15	Success within segments matrix	179
4.16	The market options matrix or 'Ansoff's Matrix'	182
4.17	Expansion	184
4.18	Life cycle analysis	185
4.19	Positioning	186
4.20	Portfolio analysis	187
4.21	Summary	188

## Chapter Five

### Recommendations and conclusions for Duys

#### Aftermarket Components

5.1	Introduction	189
5.2	P.E.S.T	189
5.3	Porter's five forces	190
5.3.1	Suppliers	190
5.3.2	Buyers	191
5.3.3	New entrants	191
5.3.4	Levels of existing rivalry	192
5.4	Key factors for success	192
5.4.1	Off road / 4 X 4 segment	192
5.4.2	Carbon steel segment	192
5.4.3	Stainless steel segment	193
5.5	Dominant industry characteristics	193
5.6	Driving forces	193
5.7	Customer analysis	194
5.8	Competitor analysis	195
5.8.1	Price-quality matrixes	195
5.9	Strategic group mapping	196
5.9.1	Carbon steel segment	196
5.9.2	Stainless steel segment	197
5.9.3	4 X 4 segment	197
5.10	Rating competitors for ability to reach K.F.S	197
SUGGESTIONS RESULTING FROM INTERNAL ANALYSIS		
5.11	Physical resources	198
5.12	Human resources - technical people	199
5.13	Focusing on meaningful segments	200
5.14	Suggestions from the management and leadership audit	201



5.14.1	Planning	201
5.14.2	Organising	201
5.14.3	Budgeting	204
5.14.4	Staffing	204
5.15	Suggestions from the marketing audit	205
5.16	Suggestions from the production and R & D audit	206
5.17	Intangible resources and brand equity	207
5.18	Mission, goals and strategy	207
5.19	Culture	209
5.20	Value Chain	210
5.20.1	Support activities of D.A.M	211
5.20.2	Primary activities of D.A.M	212
5.21	Core competencies	213
5.22	S.W.O.T	213
ACHIEVING THE GRAND STRATEGIES		
5.23	Comments on the success within segments matrix	215
5.24	Comments on the market options matrix by Ansoff	217
5.25	Comments of the expansion method matrix	217
5.26	Comments of the resource based options	218
SUITABILITY		
5.27	Comments on the life cycle matrix	219
5.28	Positioning	220
5.29	Portfolio analysis	221
5.30	Summary	222

APPENDIX 1 - Scripts of interviews with clients

APPENDIX 2 - Organogram of jobs and responsibilities

REFERENCES AND BIBLIOGRAPHY

# LIST OF FIGURES

FIGURE	PAGE No.
<hr/>	
Chapter one	
1.1 Duys parts as currently purchased at the O.E level	2
1.2 Duys parts as currently purchased at the aftermarket level	3
1.3 Future decision making system at Toyota	5
Chapter two	
2.1 Example of a strategic group map	37
2.2 A typical value chain	47
2.3 T.O.W.S matrix	53
2.4 Porter's generic options matrix	55
2.5 A success within segments matrix	57
2.6 Market options matrix	58
2.7 Expansion method matrix	66
2.8 Life cycle matrix	69
2.9 B.C.G Model	72
Chapter three	
3.1 ARB warehousing	109
3.2 ARB factory	109
3.3 Carbon steel / bent tube ' production line	114
3.4 Stainless steel components' production line	114
3.5 4 X 4 integrated components' production line	114
3.6 Workers presenting at automotive cluster Meeting	119

## Chapter four

4.1	Rand depreciation over last 10 years	128
4.2	Rand against the Dollar	129
4.3	Prime rates in South Africa	130
4.4	CPIX graph for South Africa	131
4.5	Aftermarket distribution channels	142
4.6	New and current distribution channels for Toyota	143
4.7	Carbon steel price-quality matrix	147
4.8	Stainless steel price-quality matrix	147
4.9	4 X 4 price-quality matrix	148
4.10	Stainless steel group map	148
4.11	Carbon steel group map	149
4.12	4 X 4 group map	149
4.13	Success within segments matrix : Carbon steel segment	180
4.14	Success within segments matrix : Stainless steel segment	181
4.15	Success within segments matrix : 4 X 4 segment	182
4.16	Market options matrix for D.A.M	183
4.17	Expansion method matrix for D.A.M	184
4.18	Life cycle matrix for D.A.M	186
4.19	D.A.M's portfolio matrix	187

## LIST OF TABLES

TABLE	PAGE No.
<hr/>	
Chapter two	
2.1 Measuring life stage	70
Chapter four	
4.1 Weighted and segmented key factors for success	139
4.2 Weighted competitor rating in the carbon steel segment	150
4.3 Weighted competitor rating in the stainless steel segment	151
4.4 Weighted competitor rating in the off-road segment	152

## Chapter One

### Introduction to the study

#### 1.1 Introduction

In April 2003, an engineering company called 'The Duys Engineering Group' was approached, for permission to investigate the operations of one of their businesses, where the group's management felt there was a need to solve a problem of a strategic nature.

It was suggested that there was a dire need to develop strategic direction for a newly formed company within the group, called Duys Aftermarket Components (D.A.M).

The rest of this chapter explains the situation that the group and D.A.M find themselves in and how this results in the need to develop strategic direction. It will give a brief background to the situation that motivates the study.

Further, the chapter will define the problem to be solved and the desired end result.

Lastly, the method, structure and then the format that the research is to follow, will be laid out, highlighting the limitations of the study.

#### 1.2 Background and context

Currently, Duys Component Manufacturers (D.C.M), a division of the Duys Engineering Group, sells to one main client: Toyota. The decision by Toyota as to what products to fit is made for two divisions. First, there is original equipment. I.e. equipment fitted on the factory floor at Toyota.

Secondly, there is the aftermarket, where parts are purchased for dealers to fit at customer request, in dealership fitment centers. These methods can be depicted as follows:

Figure 1.1 Duys parts as currently purchased at the O.E. level

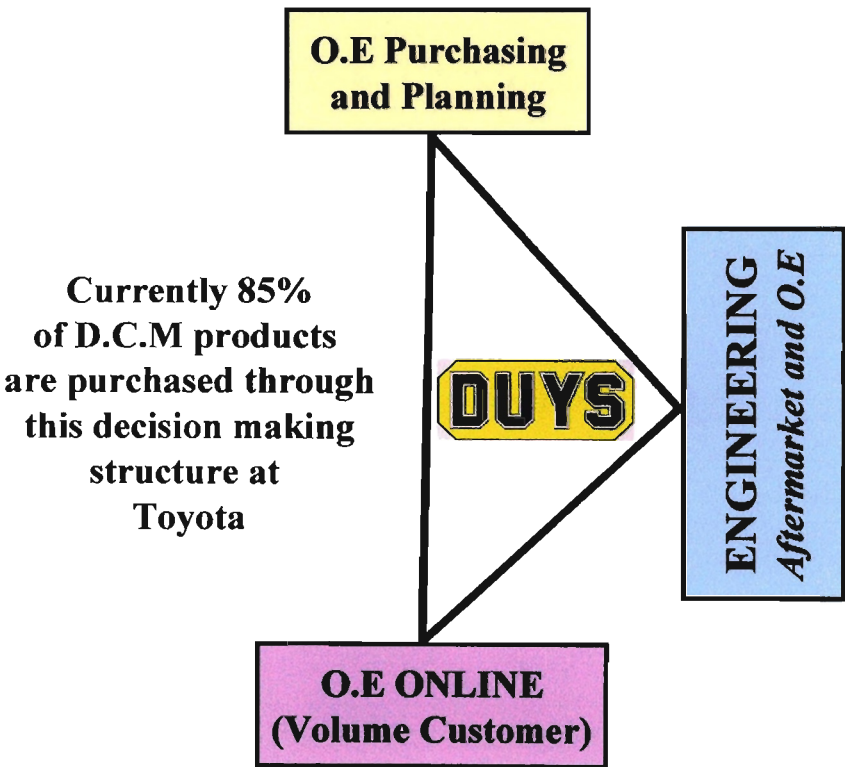
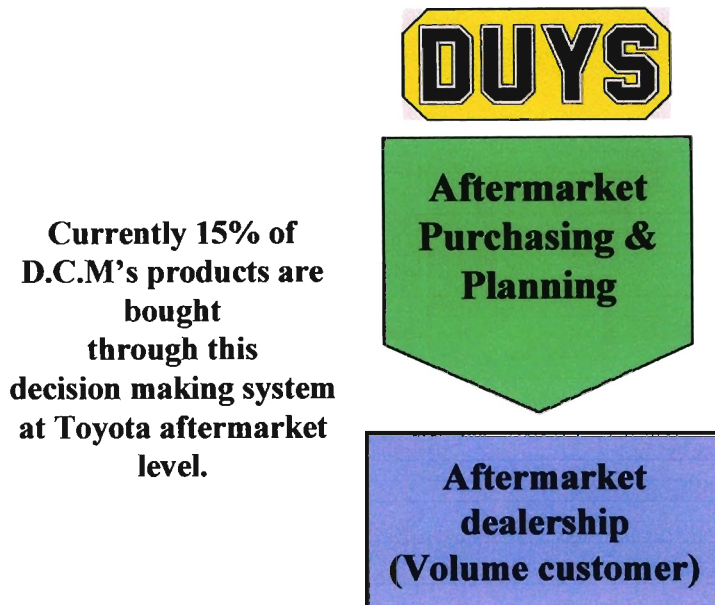


Figure 1.2. Duys parts as currently purchased at the aftermarket level.



Over the next year, this structure is going to change. There will come a time, when Toyota, as the main customer of D.C.M, no longer requires the components that D.C.M now supply as original equipment (OE). These being, rollbars, nudge and bull bars, sidesteps and towbars.

This change creates two scenarios.

#### Scenario A

As a preferred supplier that has a long-standing relationship with Toyota, D.C.M is in a good position to quote on new components for the new line of vehicles that Toyota is gearing up to produce.

This possibility will require D.C.M to focus a large part of their business on the production of this/these new item/s.

It will require that D.C.M strategize to create the ideal company structure, aligned to their customer through the shifting of budget allocations and key resources to do this work.

#### Scenario B

A shift away from the parts that D.C.M currently makes for Toyota, means that D.C.M will have under-utilised equipment, core competencies and what were competitive advantages in the manufacture of the items mentioned (Bull bars, roll bars, side steps and tow bars).

Further to this, the market in South Africa is used to having Toyota 4 X 4's and the like fitted with these items, suggesting that there may be an unmet demand in the marketplace. As these items are no longer to be supplied / fitted directly from the factory, they will now only be made available through the aftermarket, as 'optional extras'.

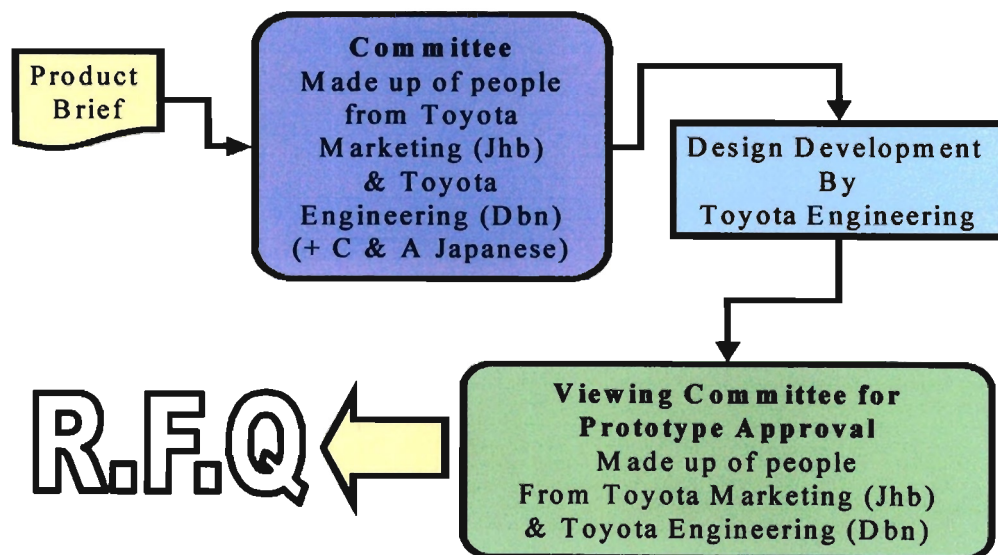
In response to these two scenarios, 'The Duys Engineering Group' felt that it could not ignore these opportunities and indeed, threats and decided to divide up D.C.M. The separation resulted in the creation of a separate company, Duys Aftermarket Components (D.A.M), to focus solely on the aftermarket, while the other division, Duys Original Equipment (D.O.E) will be left to look at new opportunities with the likes of Toyota and others. D.C.M would remain as an umbrella organisation, overseeing the operations, sharing resources and assisting with joint administration and accounts. This report will focus on the aftermarket business - D.A.M.



The 'aftermarket' exists on several levels, suggesting there are different market segments.

First, there is the new decision making structure at Toyota, where parts like those previously made by D.C.M, will be fitted at a level called the 'Post Production Center'. For D.A.M products to be approved for this center, they have to go through the following channels where the spec of the product is decided, competitive quotes are considered and a supplier is chosen.

Figure 1.3 Future decision making system at Toyota.



Apart from supplying parts at that level, it seems that there is room to circumvent the formal distribution channels and supply the dealers direct, although this is likely to be resisted from the Post Production side.

In addition to this, there are other manufacturers with dealerships countrywide, that have previously received

little attention from D.C.M. These include companies such as Mitsubishi, Ford, Isuzu and several others.

Lastly, there are specialised 4 X 4 outlets that purchase high value added items and are an attractive market segment in their own right.

Having created D.A.M out of D.C.M, with this new and very specific focus, the Group feels that it is critical, that if D.A.M is to compete in a market, where other firms have already been focused for several years, then it needs a strategy to do so. Developing such a strategy is the purpose of this study.

### 1.3 Motivation for the research

The situation facing the Duys Group, is of a strategic nature. The Duys Group is in fairly urgent need of direction for, and assessment of, their position in the market with regards to D.A.M. As a new business, management has an idea as to its area of focus but needs specific guidance that can only be developed through an detailed assessment of the specifics of the situation.

Although D.C.M previously dabbled in the aftermarket (15% of their business), it was never their primary focus. The competition for this business is comprised of different companies than before. The environment is different, the required distribution channels and selling techniques will differ greatly and of primary importance is the fact that the new company has relatively little understanding of the needs of the new customers, as these previously received little attention from Duys. All this requires that research be done to show the company what

will be required to compete and succeed in this new market.

#### 1.4 Value of the study

The study will provide an analysis of the new environment that the firm finds itself in. This will highlight for the management, areas of opportunity and threat. It will identify the competition and their various focuses, strengths and weaknesses. Further, it will establish the needs of their new customers, breaking the aftermarket up into serviceable and meaningful segments.

With regards to the company itself, the research will include a complete internal audit of the company, the results of which will reveal the ability of the company to compete in its new environment.

Lastly, the research will match the internal findings to the environment and out of that, will suggest strategic options for the firm to follow. It will also highlight some specific suggestions for the future.

It is hoped that this research will be of significant value to the new business, in defining itself and its direction.

#### 1.5 Problem statement

As a new business, with a separate focus to that of its parent company, D.A.M faces a different and unrecognised environment. It confronted with the need to assess its ability to compete in this environment. The problem faced by D.A.M may be defined as follows:

D.A.M has no strategy to compete, in the South African automotive aftermarket. Further, D.A.M only has a basic understanding of this market. There is a need to understand all aspects of this new market environment and to develop a workable strategy for competing within the ambits of what is discovered through internal and external assessment.

Out of this flows the research question to be answered:

How does D.A.M compete and what strategic direction does it take, to delight its new customers, in the environment it is facing and with the resources at its disposal?

#### 1.6 Objectives of the study

The objectives of the research are to:

- a. Evaluate the environment faced by D.A.M.
- b. Evaluate the internal workings and resources of the company.
- c. Establish a workable strategy for D.A.M to compete, utilising the resources at its disposal and within the environment it is facing.

#### 1.7 Research methodology

The following examines the method by which the research will be conducted and how the information will be gathered and disseminated.

##### 1.7.1 Research design

The research question of establishing strategic options for D.A.M within the South African automotive aftermarket requires an exploratory type of research that is qualitative in nature. It will be somewhat of a journey

of discovery as facts are gathered through various interviews and readings.

The research will follow a case study approach. It will examine the opportunities for D.C.M, through its new division, D.A.M, to re-align its operations / develop new competencies and allocate new and existing resources, to focus and serve this previously neglected customer base.

The research will look at the resource requirements to meet this market's needs, such that management can assess the viability and means of doing so.

#### 1.7.2 Data collection

To answer the research question, as defined in section 1.5, and to explore the problem statement, the research will primarily focus on the analysis of the information that is presently available from sources within the company, as well as from clients, existing and potential and lastly, from competitors.

#### 1.7.3 Secondary data collection

There is not likely to be much specific secondary data on developing a specific strategy for a business facing this exact situation and environment. However, there is a vast amount of theoretical literature on analysis of the environment in general, analysis of businesses in general and general methods for developing strategy. Use will be made of this type of data.

#### 1.7.4 Primary data collection

As the research is very much exploratory and qualitative in nature, primary methods of collection will be limited to 'experience surveys' where similar businesses, that

have had success in dealing with similar clients, are interviewed.

Information gathering will also involve an in-depth study of the existing capabilities, resources, systems, channels and capacity currently available within D.C.M / D.A.M.

In addition, use will be made of interviews with the various stakeholders related to the business: customers, management and employees. Brainstorming and exploratory sessions will assist in the fact-finding that will enable the drafting of a case study for analysis.

#### 1.7.5 Data analysis techniques

The research analysis will essentially be qualitative in nature.

Various strategic models (non-statistical) will be utilised to link the existing capabilities with the opportunities and to identify the resources lacking, to take advantage of each of the opportunities and diminish the threats.

Further use of strategic models will provide the basis for the generation of potential strategies and ideas that will lead into a discussion on implementation issues and further suggestions.

#### 1.8 Limitations of the investigation

There are several limiting factors in this study. Firstly, as an exploratory type of qualitative research, the findings will mostly likely be subjective to a degree. As the study is lacking in quantitative,

scientific data, this may be seen as limiting the usefulness of the results.

Further, not every customer will be able to be interviewed. Instead, use will be made of leads from existing sales reps as to clients that D.C.M served in the past, including those that still buy and those that no longer buy from Duys. The purpose will be to get varying views on Duys' capabilities.

A limiting factor will no doubt be that as an outsider, there is likely to be good help from the management from the business, but line managers and other employees will not likely be willing to speak too freely about the negatives of the business with a stranger. This may lead to analysis, which may be skewed towards the opinions of the existing management.

On the finance side, the organisation is reluctant to divulge too much indepth information, so the study will have to deal with only a brief overview of the financial situation.

A last limitation is that the study will not be able to go into great depth. However, it is expected to result in a robust analysis and the development of basic strategic direction that can be further developed by the management of the business, in an emergent fashion.

### **1.9 Structure of the study**

This section provides a brief summary of what is to follow in chapters two through five, such that the reader might have a brief overview and understanding of the direction of the research.

### 1.9.1 Chapter two - Strategy development in theory

This chapter will involve gathering of theoretic data, utilising electronic sources as well as various texts on internal and external analysis and subsequent strategy development.

The chapter will be theoretic in nature, developing the theoretically ideal manner for analysis and strategy development.

It will start by looking at the importance of missions, objectives and general strategic direction. Next, will be a discussion on techniques of analysis: external and internal.

The chapter will then exhibit various strategic models for analysing the data gathered through the internal and external fact finding, such that broad strategies may be 'suitably' developed.

Finally the chapter ends with a brief discussion on implementation issues.

### 1.9.2 Chapter three - A case study of the company

This chapter involves the gathering of information through exploratory, secondary and primary means and represents a cross sectional view of the situation.

Starting with a brief background on the company and its situation, the chapter goes on to explore the environment within which the firm operates. This will be done using interviews with customers and other stakeholders.



Next is a synopsis of the inner workings of the company, fact-finding through interviews with managers involved at different levels of the value chain.

#### 1.9.3 Chapter four - Analysing and developing suitable grand strategies for the company

Chapter four utilises the data gathered in chapter three, applying it to the theory discussed in chapter two.

It starts with utilising various models for structuring the internal and external information, such as defining key success factors for operating in the environment or core competencies / special skills the organisation possesses.

What follows from that, is the use of the various models for developing strategic options, as discussed in chapter two, double-checking these against internal and external factors for suitability.

#### 1.9.4 Chapter five - Recommendations and conclusions for the company

Chapter five is somewhat of a concluding chapter, where more specific recommendations are made towards achieving the broad strategic direction outlined in the previous chapter. The study goes through the steps of analysis and strategy development followed in the preceding chapters and pulls out relevant issues that should be addressed by the company. Specific recommendations are made as to how this can be done.

It also looks briefly at some concluding remarks with regards to implementation and finally provides a summary

of the process that has been followed throughout the course of the study.

#### 1.10 Summary

This chapter provides a guideline as to what follows in the next four chapters. It has shown that the company, Duys Aftermarket Components, is in an environment that it does not fully understand, with resources and abilities that it needs to match to that environment, to develop a workable strategy. This was outlined as the purpose of the study: to develop that direction through the generation of various options using theoretically based analysis.

The research was described as exploratory and in the form of a descriptive case study. The analysis was said to be qualitative in nature and the main flow to be followed, in the following chapters, was highlighted.

The first step then, is to develop a theoretical basis for analysis and discovery. This follows in chapter two.

## Chapter Two

### Strategy development in theory

#### 2.1 Introduction

Strategy can be described as the formation and development of plans and actions for the fulfilment of the organisation's purpose. This planning and development does not happen in a vacuum. It involves taking into consideration the internal criteria specific to that organisation as well as the environment, remote and close, within which the organisation operates. The definition also highlights purpose as crucial to strategy. It should in fact be the starting point for the strategy as it defines the direction the strategy must take in order to be in line with the over-riding mission. This suggests an interesting relationship of cause and effect because the purpose of an organisation is not necessarily a static thing, it grows and changes to adapt to new environments and even to changes that have been brought about by strategy itself. Suggesting, that while purpose guides strategy, so strategy leads to the evolution of purpose (Lynch, 2000).

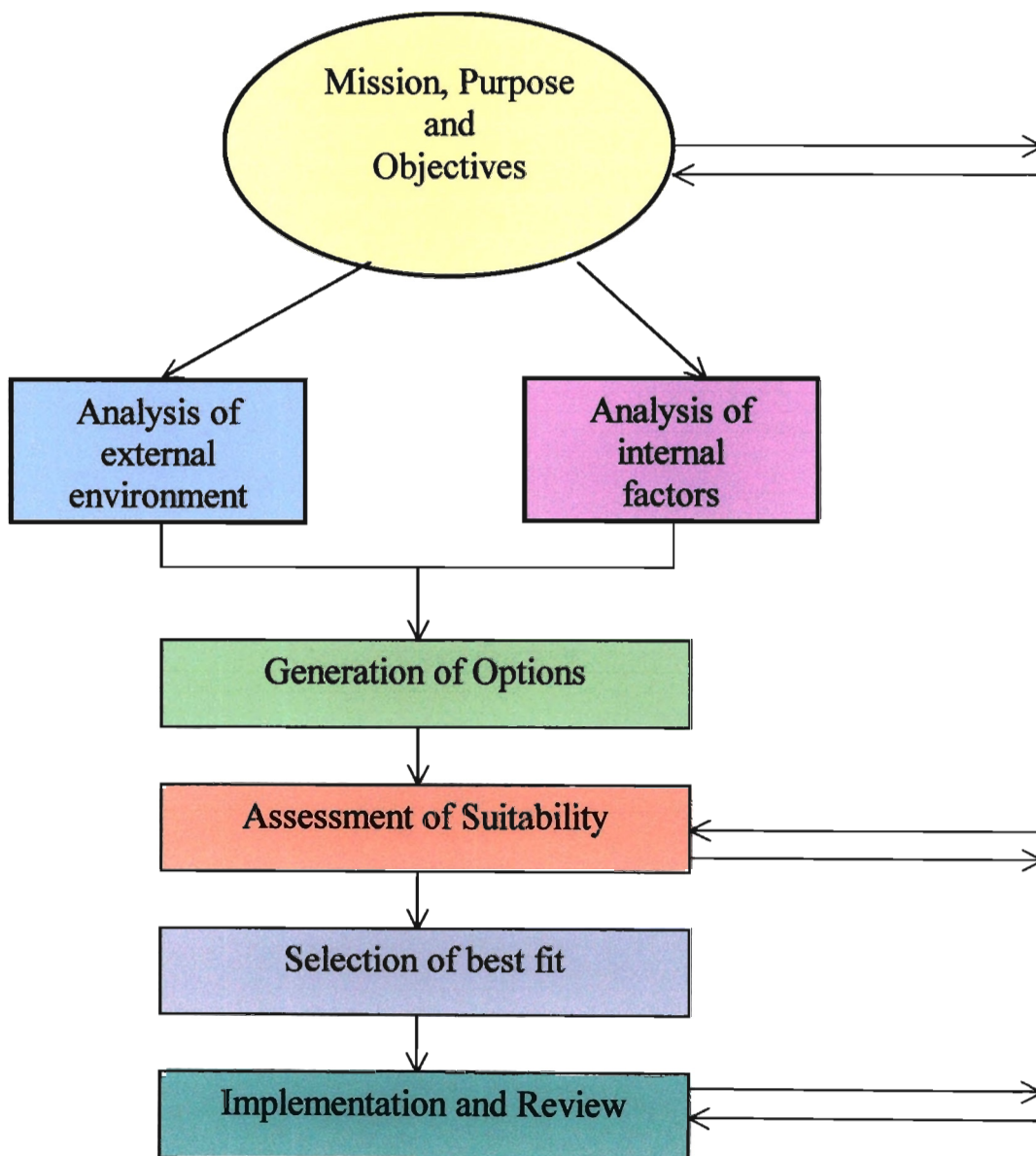
It is with these three issues in mind that the theoretical basis of strategy is examined. Theory, that in context, will allow evaluation of the specific organisation, from an ideal world perspective. These three areas form the platform of the discussion to follow. They are:

- The purpose or mission of the organisation
- The external environment
- The internal workings of the organisation

From this platform, it is explained how, by evaluating these areas together, strategic alternatives can be

generated. An examination of how to evaluate these alternatives for strategic fit and overall suitability follows, discarding those that will not work and lastly, looking at the implementation, continual review and adaptation of the strategy in the implementation process.

A basic flow of the theory to be discussed from here is as follows:



## 2.2 Mission, vision and purpose

Whittington (1991) states that the complexity of societies and the level of individualism in people, precludes uniformity. Thus, visions for companies' futures differ largely. Such vision may be seen as "a mental image of a possible and desirable future state of the organisation" (Hamel, G and Prahalad, C K, 1994). It is this future state that will differ according to how different leaders and visionaries view the future organisation within the future environment.

The organisation needs to start with a mission, defining who they are and the business they are in, the values that the organisation holds, what it stands for and what the expectations of its various stakeholders are. A mission statement is very much a statement about the present.

Vision looks at the future. It essentially looks at what the organisation wants to be and what business it wants to be in?

Together, these concepts give the organisation a purpose.

According to Moncrieff (1999), vision, analysis, the strategist's assumptions and socio-political dynamics all blend together to create what he terms 'strategic intent'. It is important, he says, that the strategist be aware that decisions and actions are influenced by people's perceptions of what they are rewarded for, what they are measured on and what the boss 'appears' to view as important. Their actions are also determined by their past, the past systems they followed and their past routines. Hence, it is important that, in developing

targets and objectives, that the strategist align intent with action.

An expressed mission, Pearce (1991) says, will assist in making this alignment. It has the benefit of ensuring cohesion of purpose, motivates the specific alignment of resources and sets a standard of acceptable results. Crucially, it also sets the basis for the organisation's culture by setting the tone / feeling / ambience with which the organisation operates.

#### **ANALYSIS OF THE EXTERNAL ENVIRONMENT**

The idea behind studying the environment is not to create a list of factors that can be managed, but rather, it is to create an awareness of factors that have the ability to impact on the success of the organisation, requiring that it adapt and evolve.

These factors can range from very general and remote issues, such as war in a different country, to close and specific factors perhaps pertaining to the customer served on a daily basis or the organisation's closest competitor.

#### **2.3 General considerations from the remote environment**

The general environment, within which strategy is developed, should be assessed in terms of the degree to which it is changing. Change itself can further be assessed according to how complex the changes are and how new the situation presented by the environment is. Highly complex change with completely new situations demands that the organisation be forward thinking to remain competitive and that continual attention be given to the development of strategy in that context.

A further consideration pertains to the predictability of change. A fast changing environment demands a more flexible strategy and indeed a more flexible organisation. Whereas, environments that are predictable in the long term, due largely to access to useful information, allow the firm to develop more long term strategies and perhaps pay less attention to daily changes (Peters et al, 1982).

## 2.4 P.E.S.T

A P.E.S.T analysis is a tool for looking at more specific issues than those discussed just discussed, while remaining in the remote environment. P.E.S.T is an acronym that stands for political, economic, socio-cultural and technological.

### 2.4.1 Political factors

Political issues influence the overall stability of the environment. Governments and politics determine the levels of protectionism and regulation. Issues to consider include:

- Free trade agreements.
- Legislation (e.g. Labour and taxation).
- Levels of government ownership and involvement in business.
- Governments' attitudes to competition levels (e.g. monopolies).
- Governments' position on ethics.

### 2.4.2 Economic factors

These play a large role in assessing the viability of strategic moves and projections. Obviously, the overall stability of the economy is crucial to long term

planning. Even more crucial than that, however, are the specific economic indicators, which can give firms a good idea as to future demand for their products, possibilities to expand, or reasons to look outside the current borders.

Issues such as exchange rates influence competitiveness in global markets as well as the ease with which input components or even competing end products may be imported into the country. Interest rates affect the firm's ability to service current debt and its ability to borrow to finance further expansion. Interest rates also play a role in affecting consumption patterns and overall spending levels. On a broader scale, they, in the long term, affect the level of overall economic growth in the economy.

Levels of unemployment influence labour costs and lead to broader social considerations.

Inflation affects the ability of firms to rely on stable prices of inputs as well as their ability to predict future revenues and price related marketing strategies.

Other economic issues include levels of foreign investment and the level of G.D.P and its growth rate.

#### **2.4.3 Socio-cultural environment**

It is widely agreed that culture is something that is learned, shared and inter-related (Hollensen, 2001). It is generally an unstated phenomenon made up of many components which are understood by those that are part of it. Understanding the socio-cultural environment within which the organisation operates is crucial to developing



strategies that will be successful. It affects all the functional aspects of the business, from marketing to H.R. Although continual globalisation makes it seem like the world is developing a global culture, it is critical, especially when firms are operating in foreign environments, that they do recognise cultural differences.

Culture is a layered phenomenon, with each layer influencing others. On the broadest level, is *national culture*, which is determined by history and broadly defines the nation of people within it. National culture certainly influences the next layer, which is *industry culture*. Certain industries have a culture of being innovative; others are less progressive with an inward looking culture. The next layer, influenced by both the aforementioned levels, is *company culture*. This may largely represent the industry culture, yet it is likely to also represent the leadership of the particular organisation and the values that they propagate. Lastly is *individual behaviour*. This is influenced by all of the above as the individual learns from the environment what is acceptable and what is expected.

Understanding the differences in these levels will allow the strategist to formulate strategies that are in tune with the socio-cultural environment. This will assist in the execution of the strategy as culture provides unwritten rules, structures and standards by which people work. It also ensures that, as the strategy is communicated to the workforce, it is not at odds with their general beliefs. Rather allowing them to identify with the strategy and adopt it as their own.

Socio-cultural issues include:

- Languages
- Religion
- Attitude to work
- Attitude to space
- Attitude to time
- Perception of aesthetics
- Social institutions and reference groups
- Manners and customs
- Body language

The explicit levels of culture are easier to understand. It is the implicit level, that is embodied in basic assumptions made by the members of that society, that takes more time, yet is no less crucial.

Hofstede provides a model by which the socio-cultural environment may be evaluated. He suggests that people be analysed according to the way that power is viewed and distributed. For example, the Japanese are far more conscious of levels of authority than Americans, who lean more towards decentralised decision making and power structures. Recognition of this should thus shape the structure of the organisation, communication and channels of responsibility and authority (Deresky, 2002).

Next he looks at the levels of individualism versus collectivism. As an example, a marketing strategy focused on individual success and individual vanity may not fit in an environment where team efforts or the welfare of the community are more highly valued than that of the individual.

Also, certain cultures are more masculine than feminine. Some cultures don't value the input of women in the workplace; others see women and men as equals. On a more subtle level, cultures can be defined as more masculine if they are more aggressive, or feminine if they are more passive.

Lastly, Hofstede says that cultures can be classified according to the extent to which they avoid uncertainty. Some cultures are more open to change and risk than others and this plays a role in the levels and speed with which management will successfully bring about necessary change (Deresky, 2002).

#### 2.4.4 Technological environment

Technological change is often a catalyst for far further reaching changes in other aspects of the environment, demanding that strategy, the firm's focus and the internal aspects of the organisation adapt and evolve with them.

Awareness of technological advancements can give an organisation a first mover advantage whereas being second to a competitor's technological advances can leave the organisation at a competitive disadvantage.

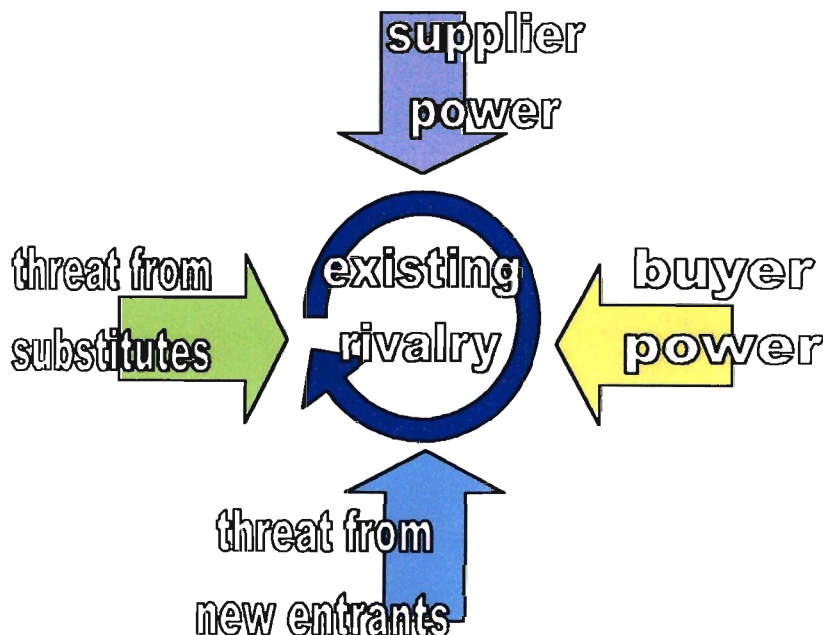
The technical future can be shaped by research, making R & D crucial, in industries where being ahead with products and processes is a key factor for success. Patents and new products also shape the future environment. It is again important to be aware of the speed and degree of such change in evaluating the potential impacts that these may have on the business

environment and hence the steps that the organisation should take within this context (Lynch, 2000).

## 2.5 Porter's 5 forces analysis

Michael Porter (1985) developed this model to provide a framework for understanding the industry context within which the firm is operating. Competitive strategies in particular need to be cognisant of the industry environment, structure and change. Understanding these five forces, Porter believes, will enable the firm to adapt itself and the forces to improve the competitive standing of the organisation. This he believes to be crucial to success, as it is these forces that shape both the industry and the market, determining the degree of competition and thus the potential profitability and future attractiveness of the industry.

Porter's five forces can be depicted as follows:



### 2.5.1 Supplier bargaining power

Suppliers are the providers of any input into the production process of the organisation. A powerful supplier can limit the strategic moves that the organisation can make and can in fact capture some of the firm's profits.

Suppliers are strong where:

- There are a few large suppliers.
- The suppliers are concentrated.
- Where there are no substitutes for that particular input.
- Switching costs are high.
- There is possibility of forward integration by the supplier. This threat is exacerbated if:
  - The buying industry has high profitability.
  - Forward integration will provide economies of scale.
  - The buying industry hinders the supplying industry in their development.
  - The buying industry has low barriers to entry.

Suppliers are weaker if:

- The product is standardized or commodity-like.
- Backward integration by the buying organisation is credible.
- Buying organisations are concentrated and large.

### 2.5.2 Buyer bargaining power

The higher the bargaining power of customers, the higher the ability of the customer to affect the profitability and volumes of the organisation.

Buyer bargaining power is higher when:

- Customers are concentrated and there are few of them.
- They buy large volumes.

- There are many suppliers to choose from.
- Buyer's switching costs are low.
- The supplying industry has high fixed costs and relies on volume for profitability.
- The product is commodity-like / undifferentiated.
- Customers can backward integrate.
- Customers are price sensitive.
- The product is of low strategic importance to the buyer.

### 2.5.3 Threat of new entrants

If the industry environment provides easy entry to new entrants, it creates uncertainty as to the organization's future share of the market and future customer loyalty. It will affect the organisation's choice of branding strategy and its strategy to create barriers to entry. It is the creation of these barriers that enhance a firm's competitive advantage, making it critical that the firm be aware of potential sources of barriers to entry, so that it might create and exploit these.

Barriers to entry arise from:

- Government actions through tariffs. Government can also encourage competition by creating anti-monopoly laws or through deregulatory actions.
- Patents and proprietary knowledge create barriers to entry.
- Asset specificity - the degree to which the capital equipment of the firm may be used to manufacture other items influences the risk that new entrants will take by getting into the industry. Highly specialized equipment creates a deterrent.
- The need to have economies of scale to compete is a deterrent.

- Where consumers have high brand loyalty, there is less threat from a new entrant.
- Scarcity of input resources.
- Strong existing relationships with critical suppliers and / or customers.
- High experience curve effects.
- High existing control of distribution channels.
- High switching costs.

#### 2.5.4 Threat from substitute products

Close substitutes affect the ability of the organization to put large margins on their products. A substitute poses a higher threat when:

- It is very similar to the firm's products.
- There are many choices available.
- Customers are very demand elastic and price sensitive.
- Performance by substitute products is of equal or even higher value / standard than the firm's.

Threat from substitutes can be decreased by establishing:

- High brand loyalty.
- Close relationships with customers.
- High switching costs.
- Better price per performance level.

#### 2.5.5 Levels of existing rivalry

The higher the competitive pressure in an industry, the higher the pressure to use price cutting as a tool to compete and the lower the profit margins.

Competition is likely to be high when there are many players of similar size. Economists refer to the concentration ratio as the number of firms holding the

majority of the market share. When this is a large number of firms, competition is likely to be fiercer.

General pricing discipline or even informal collusion leads to low levels of competition. On the contrary, in industries where the pay-off from a successful strategic move is large, competition is likely to be more intense. Such strategic moves are likely to elicit a response from competitors, heating up the competitive environment.

Other factors influencing competition include:

- Slow market growth, or even decline, which results in firms fighting harder for their share of the pie.
- High fixed costs require firms to aim for economies of scale, increasing competition for market share.
- High storage costs or perishable type items require that firms sell quickly. This requires them to have a secure market and is likely to increase competition.
- Low switching costs to customers make firms fight hard to create switching costs by adding extra value.
- Low levels of differentiation force firms to compete intensely, often on the basis of price.
- Strong branding has the potential to decrease the level of competition between the masses of firms but can lead to fierce brand competition between the major branded players.
- High exit barriers increase competitive rivalry.
- Diversity of rivalry, strategic direction, missions and company cultures can make the competitive environment unstable.
- Similar strategies, on the other hand, are likely to lead to competition as to which firm can execute theirs



most effectively to reach their individual goal better or faster than their rival.

#### 2.5.6 Using Porter's model

It is important that it be recognized that the Five Forces Model is almost a snapshot at a single point in time. To be effective in today's fast changing environment, ongoing attention must be paid to the changing, close industry environment so that the firm might adapt its competitive strategy as the competitive environment changes.

One way to do this is to look at the P.E.S.T analysis and Porter's analysis together. Being aware of political, economic, social and technological trends allows the firm to look at the environment characterized by the Five Forces Analysis and make some predictions or 'what if' scenarios, visualizing how the competitive environment might change and in that light, be ready to make the necessary strategic moves to stay competitive.

Lastly, to be of use to the company, one should attempt to quantify the severity of each of the forces to the degree that it is either a strong, weak or medium force. This should then influence the priority and speed with which the organization addresses the particular issue (Lynch, 2000 and Thompson and Strickland, 2003).

#### 2.6 Key factors for success

Developed by Kenichi Ohmae (1983) of McKinsey, a consulting firm based in Japan, this concept assists the strategist in aligning the organisation's resources with areas that are crucial to overall competitiveness and success. The concept looks at areas that are critical to

success for all the players in the industry. Focus on these areas alone does not give the firm competitive advantage, yet, being better than the competitors and in some way differentiating oneself in these areas, may do so.

Ohmae expanded on this theory by providing a framework for pinpointing such key factors. He suggests looking at three areas that he terms the three C's, these being:

- Customers
- Competition
- Corporation.

Understanding the *customer* and their basic requirements does not give a firm competitive advantage yet it is paramount to general success. Every firm in the industry must meet the customer's basic price / quality expectations to continue operating with some level of success. Other criteria customers expect may include some level of service, branding, or a minimum specification.

Maintaining a competitive standing is also crucial and there will, in every industry, be certain minimum performance levels that allow success in the *competitive environment*. Matching levels of distribution may be one criterion for success. Others may include certain price or quality levels to compete.

Ensuring that the *corporation* / organisation itself be endowed with resources that ensure basic success is the last point Ohmae highlights. It requires that the firm look both at the environment and at its own internal resources. Comparison to minimums required by customers

and basic levels of competition set by competitors will make it clear to the organisation what technologies, skills and other abilities are vital for success in the market place. An example would be an industry where economies of scale are vital to success. This would be highlighted by the prices that customers demand and the levels of production by competitors, yet it will be an internal issue that needs to be analysed with understanding of the firm's existing resources (Ohmae, 1983).

## 2.7 Dominant industry characteristics

Thompson and Strickland (2003) use dominant economic characteristics as a way of profiling an industry environment. The same can be done for the other components of P.E.S.T; the idea being to take a look at the closer industry environment than P.E.S.T does in the remote environment. Understanding the close environment is important to the degree that it has implications for the future strategy of the organisation. For example, a dominant characteristic of the technological environment of the telecoms industry is that it is continually changing, in efforts to find faster ways of transferring information.

## 2.8 Driving forces

Having analysed the dominant characteristics of the industry, the strategist should have a good static picture of the make-up of the industry. To extrapolate this picture forward, bearing in mind that strategy is all about developing something in the future, it is wise to examine the forces that are likely to determine the shape of tomorrow's industry.

Thompson and Strickland (2003) point out the necessity to both identify these forces and to assess the impact they will have on the industry. It is important that the strategist avoid the inclination to create a massive list of everything causing any change of even minor significance and rather, concentrate on those that play a more major role in changing the competitive environment or the structure of the industry.

Pinpointing the driving forces is not part of the analysis that happens in isolation. In fact, the most effective way to identify such forces, is through continual environmental scanning, using methods like the P.E.S.T analysis and Porter's Five Forces, extrapolating trends into the future and being aware of the implications that these may have on the future shape of the industry. Being aware of these in advance, allows the firm to strategise for the future.

Some common driving forces include:

- The advances of e-commerce and the internet.
- Globalisation.
- The way the product is used.
- Changes in who buys the product or how they buy it.
- Changes in the long term industry growth rate.
- Technological advancements of processes, functions or products.
- Change in buyers wants or needs.
- Entry or exit of major industry players.
- Legislation, regulation/deregulation or government policies.
- Changing societal concerns, demands and influence.

You will note that the trend of the analysis so far has moved from a very broad external analysis, quite distant from any one organization, to a study of the closer environment specific to the industry within which the firm finds itself. The next step is to look even closer, at specific relationships that the firm has. This entails looking at the firm's competition and at its customers.

## 2.9 Customer analysis

Just as competitor profiling is important in the development of successful strategies, so is developing an understanding of the needs and specifics of the industry's customers (Levit, 1960). Porter's (1985) Five Forces analysis of buyers provides a basic understanding of the power of customers in general. Thus, it is important that a customer analysis look at a closer level.

The first step is to identify the customer. This is initially done on a broad level. For example, Toyota might define its market broadly as that for automotive-based transport. From here, it is crucial that the company pays close attention to specific customer needs by identifying specific segments within that broad market. This is so that their specific needs are met in such a way that the customer won't consider purchasing from a rival company like Hyundai or a substitute product such as a motorcycle from Kawasaki.

Out of this flows critical issues:

- Understanding the current and future needs of specific customer groups.

- Being able to segment the market into definable, measurable, significant groups that can be serviced by the organisation.

Having identified who the customer is, and what their specific needs are, allows the organisation to develop strategy that is responsive to those needs and to develop its internal resources to add value in areas that mean the most to the customer.

## 2.10 Competitor analysis

It is important that the environmental analysis give insight into the competitive forces facing the organisation. A competitor analysis goes through a discussion of the general levels of competitive intensity, looks at each competitor and their ability to compete in the market and compares one competitor to another and to the firm.

### 2.10.1 Competitive intensity

Again, starting from a broad point and working towards a more focused analysis of individual competitors, the strategist should start by looking at the general intensity of the competitive environment, as determined by the concentration of companies in the market. Porter (1985) is a good starting point for this. One can also look at the microeconomic state of the organisation, from monopoly to perfect competition and in so doing, determine the degree to which individual firms are able to influence the market. Factors to look at include the number of firms and their relative sizes. An industry made up of a few similarly sized firms may be characterised by levels of co-operation that allow the firms to make good profits without 'competing' the price

down, as might happen in an industry with many differently sized players.

#### 2.10.2 Competitor profiling

Although it may not be possible to profile each and every competitor, it is useful to analyse the firm's closest and largest competitors. Such an analysis should involve looking at the competitor's:

- Strategic direction and objectives.
- Resources, both tangible and intangible, examined through a S.W.O.T analysis of the competitor as well as an analysis of the competitor's value chain to understand where and how the competitor adds most value.
- Links, both formal and informal, with other organizations such as suppliers, buyers and trade unions.
- Past performance.
- Products and services, their life stage, their success, their branding strategies, their price-quality positioning and so forth.

An understanding of all these facets allows the organization to compare itself to its competitors for purposes of benchmarking and for the purpose of developing more effective competitive strategies. Also, it allows the organization to better predict how the competition may react to its strategic moves. Lastly, it is crucial that such profiling be a continual process, as competitors, like the rest of the environment, are continually evolving.

Comprehension of the individual competitors will then allow the strategist to group together those competitors that have similarities and to compare groups of

competitors to others and to the firm. This is done in the form of a strategic group map (Lynch, 2000).

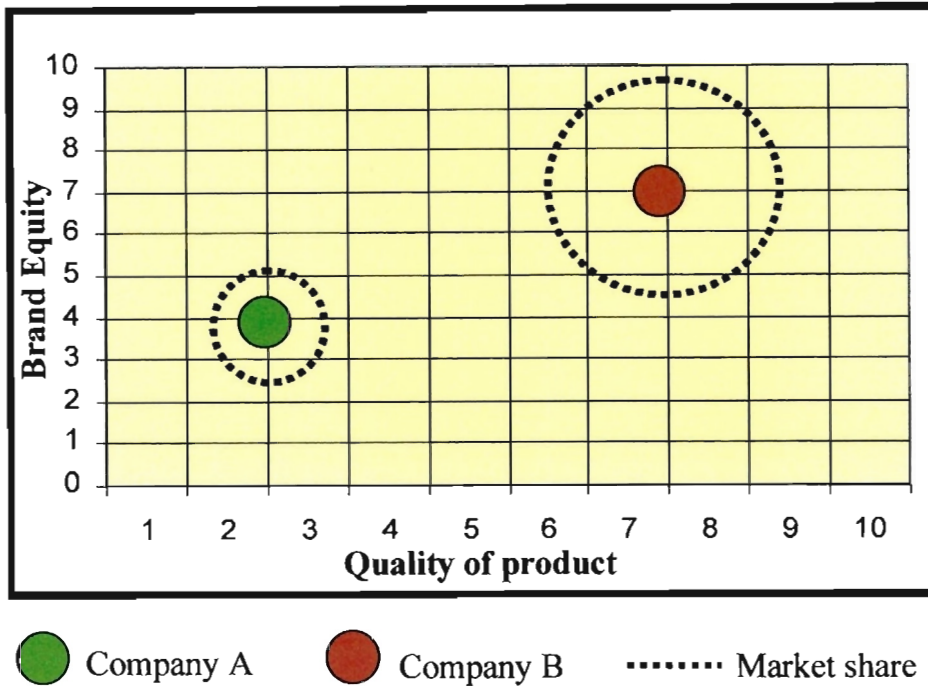
### 2.10.3 Strategic group mapping

Strategic group mapping is a tool, used in analysis, to group together competitors with some commonality or another. These commonalities may be similar product range, similar strategic focus, or similar target market, to name a few. Grouped according to these shared attributes, the strategist is able to determine a basic view as to the different firms' market positions. This is done by graphing competitors, using two attributes that are not highly correlated. The size circle representing the group (figure 2.1) should represent the group's share of total industry sales.

The strategist can then examine how the environment is likely to influence the standing of the different groups. The map also has the potential to exhibit areas where the existing players have not focused - a gap in the market (Thompson and Strickland, 2003).



Figure 2.1 Example of a strategic group map



### INTERNAL ANALYSIS

The following section looks at the particular organisation involved in the development of a strategy. Strategy has to work within an environment but it also has to work FOR the organisation. To do this, it has to make best utilisation of the internal resources of the organisation, while addressing any deficiencies. This section starts with a basic internal audit of the resources available to the firm, focusing on the interrelationships between functional areas and from there, draws on how the resources are utilised, controlled and linked together through a value chain analysis.

To put the internal analysis of the organisation in perspective, the next step in the evaluation is to compare its resources and allocation of effort to historic figures, both of its own and to that of the industry and then, lastly, to a higher standard in the

form of benchmarking. In light of these comparisons, the analysis goes on to evaluate the organisation's current strategy.

Next is the identification and the enhancement of core competencies aimed at the development of competitive advantage. Finally the section ends with an examination of a S.W.O.T analysis, which encompasses both analysis and a step towards the development of strategic choices.

### 2.11 Resource Audit

Key to any strategy is its capability to succeed through the use of available resources. That is why a resource audit is a good starting point in the internal analysis. Johnson and Scholes (1993) suggest that an understanding of the organisation's inherent resource strengths, availability and nature, can best be grasped by grouping them under the following headings:

- Physical resources - taking into account, quantity, capacity, age, condition, location and capability of these resources.
- Human resources - looking at available skills, adaptability and trainability.
- Financial resources - debt situation, creditors and debtors payment periods, the cashflow situation and the relationship that the firm has with sources of funding. Also key is where the firm's financial resources are currently located and the return that these investments are currently generating.
- Intangible resources - these include brand names, relationships, company image and other measures of goodwill.

A good research audit will highlight all the resources that are available to be used in future strategy and create an understanding of which resources are under the control of the firm. Awareness of the resources that support strategy is critical to the development of core competencies.

An internal audit needs to focus on the interrelationships among the functional areas of a business. No functional department acts in isolation and thus, information from each department is crucial to the development of successful strategy.

Internal functional audits can be done for five main departments (David, 1986):

- The management audit
- The marketing audit
- The financial audit
- The production audit
- The research and development audit

#### 2.11.1 The management audit

David (1986) starts his functional audit with management, identifying the sub-functions of this area as planning, organising, motivating, staffing and controlling. An audit of how well management performs these tasks will highlight areas that strategy can utilise as strengths, or that it should focus on before strategy may be successful. David suggests that, by answering some key questions, the strategist / analyst can establish how well each of these sub-functions is being performed. Some of these are listed here:

a. Planning

- Does the organisation have a clearly stated mission, goals and objectives and are these effectively communicated?
- Does the organisation have a strategy for competing?
- Do they analyse the environment, remote, near and competitive?
- Does the organisation monitor and anticipate the needs of their stakeholders?
- How effective is the firm's budgeting process?
- Does the firm have back-up plans?

b. Organising

- Has the organisation laid out authorities, responsibilities and accountability?
- Are similar activities grouped effectively together?
- Is authority effectively delegated?
- Are job requirements clearly defined and communicated?
- Are these jobs meaningful, rewarding and challenging?
- Does unity of command flow throughout the organisation?

c. Motivating

- Is morale high amongst employees and managers alike?
- How high is absenteeism?
- How high is staff turnover?
- What are employee-management relations like?
- Is creativity encouraged?
- Do staff and employee organisations feel their goals are aligned to those of the organisation?
- Do the people within the organisation adapt well to change?

- Are departmental policies supportive of individual goals and needs?
- How effective are the current reward systems?

#### d. Staffing

- Does the firm have a HR department?
- Are employees carefully screened, interviewed, tested and selected?
- Does the organisation provide advancement programmes and training?
- Does the organisation have:
  - Equal employment opportunities?
  - An affirmative action programme?
  - A policy of promotion / selection from within?
  - Career planning systems?
  - Disciplinary systems?
  - Grievance procedures?
  - Effective wage / salary administration systems?
  - A code of ethics?
- How are the relations between the union and management?

#### e. Controlling

- Are there systems to control:
  - Finances
  - Sales
  - Inventory
  - Expenses
  - Quality?
- Are control systems computerised?
- How promptly are corrective actions taken when necessary?
- Is unethical behaviour controlled?

- Are the control systems effective, prompt and accurate?

### 2.11.2 The marketing audit

Kotler (1984), in his book *Marketing Management Analysis, Planning and Control*, provides somewhat of a checklist for analysts to follow in determining the effectiveness of an organisation's marketing department. He suggests looking at three areas which David (1986) also makes use of:

#### a. Marketing systems

- Is market information effectively gathered and accurately processed for timely use?
- Does the firm effectively forecast its sales?
- Does the firm segment the market in ways that provide for a reachable segment that is large and profitable enough?
- Are marketing costs examined on a regular basis in terms of the firm's strategy?
- Are new ideas and products researched and tested before extra investment and launch?

#### b. Marketing productivity

- How profitable is each product, segment, market and channel?
- Should focus be given to expansion in any one of the above areas or should the firm be divesting from any of these?
- Are any of these areas absorbing excessive costs and why?

#### c. Marketing functional audit

- What are the marketing objectives and how are:

- Price
- Product and branding strategy
- Distribution strategy
- Promotion and advertising
- Marketing personnel

assisting in reaching these objectives?

- Is the sales force well motivated and managed?
- How does the sales force compare to that of rivals?

### 2.11.3 The financial audit

A financial audit should look at five main areas and ask two main questions:

- How does the firm's position compare to the industry average?
- How has the firm's position changed over time?

The five main areas that David (1986) highlights are:

- Liquidity
- Leveraging
- Activities
- Profitability and
- Growth.

### 2.11.4 The production audit

David (1986) notes as important, an analysis of the production process, looking at the facilities and the layout of the production system, asking how efficient it is and whether the various technologies being used are appropriate. The process starts with goods in, moves on to value adding and ends with goods out. A process audit should analyse the effectiveness of these three areas.

Next is a capacity audit. This should show the analyst the degree to which each area of the production process is being used. Can economies of scale be reached and are they? In short, the analyst should be asking how well production is controlled for maximum use.

The inventory audit. This should examine the ways in which the firm purchases its inventory, how long it holds it for and the costs thereof. Special attention should be paid to whether the firm experiences stock outs and what the effects of that have been. This should allow the firm to determine optimal production batch sizes. Attention should also be paid to inventory control systems and their effectiveness.

Work force audit. Here the analyst should pay special attention to production related jobs and how they are designed and placed for optimal operations efficiency. Production standards and expectations placed on the workforce, together with productivity / output, should be analysed.

Quality. This being the last area of the production audit, the questions are asked, does the firm have a policy of pinpointing problems / quality irregularities through prevention methods or only after customers complain. Obviously the costs of quality procedures should also be looked at, relating these to competitors where possible.

#### 2.11.5 The R & D audit

The final functional audit is in the area of research and development. Not all companies do R&D, some do it in-house and some outsource it. An internal audit of this



functional area should start by looking at the need for R&D in that particular industry / business. The analyst should ask questions pertaining to whether the organisation is interested in carrying out research and if so, for how long they would be prepared to finance that research. One would also have to consider the risk involved in R & D. Other considerations may include:

- Has the organisation got clear research plans, goals and objectives?
- If the organisation does its R&D in-house, has it considered the benefits of outsourcing and visa versa?
- Does the organisation have the capital to exploit opportunities made through innovation and R & D?
- Are sufficient resources dedicated to R & D (David, 1986)?

The end result of an internal audit should be a comprehensive understanding of the inter-relatedness of each department as well as an overall understanding of the abilities and limitations within the organisation. Thus, when it comes to developing strategy, this will provide the strategist with a good grounding in applying the ability of the organisation to implement the strategies that will make effective use of key resources and address limited areas.

## 2.12 Value chain analysis

It will be noted that most of the firm's resources do not carry any major intrinsic value. Value is rather derived from their interactive contribution with other resources, to production and output. In identifying existing and potential competitive advantage, it is therefore important, to examine the capabilities that collaborative resources infer on the organisation. The value chain

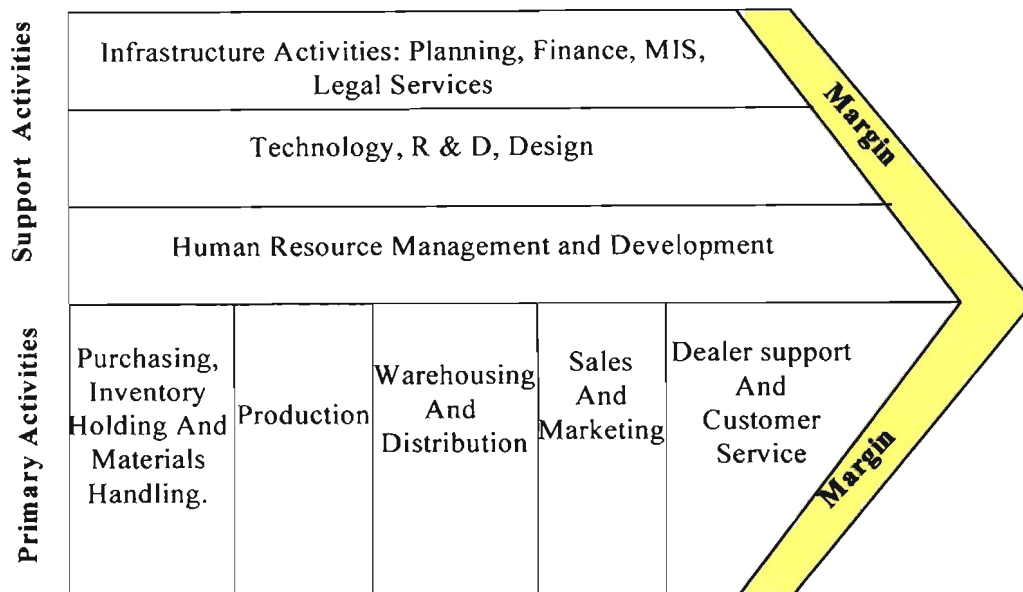
theory suggests "the individual firm can be viewed as a chain of related activities" (Grant, 1991). Porter (1985) breaks these activities into primary and support activities.

It should be noted that an organisation could have more than one value chain, due to its focus on more than one product or service. A good understanding of the firm's value chain activities can give excellent insight into where the firm's strengths and weaknesses lie. Differentiating yourself in key areas of the value chain compared to the competition, can give the firm competitive advantage.

Step one in analysing the value chain, is to look at each individual activity, classifying it as a strength or weakness and comparing performance in this area to that of the competition.

Step two is to look at the linkages between the activities. Higher cost in one area, on its own may seem above industry average, yet may lead to better performance in another key area of the value chain. For example, above average spending on quality controls in the production process may allow the firm to follow a successful marketing campaign aimed at a lucrative market segment.

Figure 2.2 A typical value chain



However, high costs in one section of the value chain might be necessary for the success of a particular strategy in another section of the value chain. The value chain does, however, still provide one of the best outlines for finding areas within the overall process, to cut costs. Where various activities are allocated is important, as this can take some creative thinking. Ambrosini (1998) uses the example of the Prêt à Manger sandwichbar company. For that company, Ambrosini argues, their method of cleaning up is part of their marketing activity and should be reflected as such in the value chain. Ambrosini argues that this is the case since the company uses an 'in line of customer sight' cleaning up process, to communicate a message about the company.

Allocation of activities and costs to the correct segment of the value chain is important in grasping an

understanding of which activity bears which cost and how that contributes to what reward. This understanding will allow the strategist to look at ways of cutting costs, where possible, without damaging performance. It also allows identification of areas of improvement in performance. Looking creatively at the value chain and inter-relatedness of the activities can lead to the creating of competitive advantage.

Using Ambrosini's (1998) Prêt à Manger example, an overhead like rent can be examined. Each Prêt à Manger outlet needs to have a well placed, upper-class shopfront to protect its brand equity. This is linked to the marketing activities. However, such rental is likely to be expensive. Production, if done in the same shop, is thus going to incur high rentals for the floor space it utilises for that process, increasing the firm's overall production costs. An understanding of the fact that each of these activities incurs their own portion of the total rental costs, allows the Prêt à Manger strategist to view them as two related, but different, costs. The strategist can now look at the viability of producing the sandwiches at a different location that incurs lower rentals per area of floor space used and transporting them to the actual sales location. Since the customer never sees the production location, it is not of marketing importance.

The beauty of value chain analysis is that it can be applied to almost anything and is easily utilised in a number of contexts. The strategist may use the value chain to analyse how the industry adds value, highlighting possibilities for forward and backward integration. One might look at taking a segment of the

value chain, such as production and creating a value chain for that sector. This is known as segmenting the value chain. One might even use the value chain to do competitive analysis, comparing where and how different firms within the industry treat different costs and activities. For example, Prêt à Manger sees cleaning up as a marketing activity and thus might allocate different finances to the function than a competitor that sees it as a support or production activity.

### 2.13 Comparative analysis

Another area of benefit that the value chain provides, is the ability to look at how the value system has changed over time. Johnson and Scholes (1993) suggest this can best be done through three types of comparative analyses.

#### 2.13.1 Historical analysis

A historical perspective in this case looks at the firm's current resources versus the firm's historical figures. Comparing labour to capital ratios with output is one example. Such analysis can show management which moves have been successful and which have not. They can also show where the firm has been focusing its attention. Linking that to results will give good guidance for future practice.

#### 2.13.2 Comparison with industry norms

This is done in a similar manner to the historical analysis but has the added benefit of showing management their position relative to other firms in the industry. For a wholistic picture, this analysis can be done across borders.

### 2.13.3 Best practice analysis

The downfall of industry norm comparisons is that they do not take into account that the industry may be performing badly, or that firms differ in their focus because of different strategic focuses. For example, some will spend more on quality control as they aim for differentiation, versus the firm aiming for cost leadership, who is selling a more budget product. Best practice analysis is a way to conquer these short-comings by benchmarking against a targeted competitor whose practices are seen as the standard to achieve. The firm then benchmarks their performance, allocation of resources and focus on the standards set by the chosen competitor.

### 2.14 Assessing the current strategy

Lasher (1999) writes that one should be careful how one measures the success of strategy. The obvious inclination is to look to profitability and market share to see how the strategy has affected the growth of these. However, ignoring changing trends in other areas can lead to inefficient guidance of the firm. Awareness of such trends, for example in the number of quality returns or the number of sick days taken, will each tell a story, so that the strategist may address any potentially problematic areas. Comparing performance to competitors' is one way of checking that 'good performance' is also 'relatively good performance'.

Analysing strategy for success or failure is always easier if, when it is created, it is clearly written down with objectives and timings. Then, on analysis, it is important to make a list of areas that are on track,

ahead, or lagging so that appropriate action might be taken.

### 2.15 Core Competence

Hamel and Prahalad (1994) define "core competence as a group of production skills and technologies that enable an organisation to provide a particular benefit to customers". Core competencies can be developed into core products that can ultimately form individual business units. It is the successful integration of core competencies: skills, knowledge and technology, that can lead to competitive advantage.

Hamel and Prahalad (1994) suggest that three areas distinguish core competencies:

- They must make a real impact on how the customer values the firm's products, service and/or organisation.
- They must differentiate the firm from the competition.
- They must be extendable to other areas of the organisation and they must lead to the extension of products and services to the customer.

Ambrosini (1998) likens the firm's core competence to its enabling culture, which Ambrosini further defines as the firm's motivation and applied skills.

John Kay's (1993) research attributes corporate success to four main competencies:

- Innovation
- Architecture
- Reputation and
- Strategic assets

He suggests that it is the effective blending of these that contributes to competitive advantage.

After identifying these core competencies, it is important that the strategist formulate plans to build on these while even considering dropping those that do not contribute to building competitive advantage in the long run.

#### 2.16 S.W.O.T Analysis

The S.W.O.T analysis is not strictly an internal analysis as it also looks at opportunities and threats, which are generally environmental in nature. S.W.O.T does, however, pertain to issues directly affecting the firm, so it is included in this section.

A firm understanding of the organisation's strengths and weaknesses is key to the successful allocation of resources and time as well as to the direction the strategist chooses. Matching these attributes to the environmental opportunities and threats allows the strategist to make an educated decision as to the capability of the firm to deal with the threats and to take advantage of the opportunities. It is for this reason that much of the literature on S.W.O.T analyses purports that a simple listing of the strengths, weaknesses, opportunities and threats is not sufficient to give the strategist this capability. Instead, they contend, a matching and weighting system allows the strategist to view the environment in context with the firm's capabilities.

Hunger and Wheelen (2001), Ambrosini (1998) and McNamee (1992) are amongst the many that put forward the



weighting of strengths and weaknesses for importance. Matching these to opportunities and threats in the form of a matrix or table is one way to form an opinion on the firm's current standing and future ability.

A S.W.O.T analysis leads into the development of basic strategy if the cross-referencing is done accurately. The idea is to identify which is the overriding component on the S-W side and which is overriding on the O-T side.

Figure 2.3 T.O.W.S MATRIX

<div>Internal factors</div> <div>External factors</div>	Strengths (S)	Weaknesses (W)
Opportunities (O)	Develop S-O Strategies	Develop W-O Strategies
Threats (T)	Develop S-T Strategies	Develop W-T Strategies

Hunger and Wheelen (2001) suggest a matrix for developing strategies based on mixing and matching environment with internal resources. They refer to it as a T.O.W.S matrix. The T.O.W.S Matrix is very similar to the S.W.O.T matrix developed by Pearce and Robinson (1991).

As can be seen, in an environment characterised by opportunities, a firm with dominating strengths is able to follow what Hunger and Wheelen (2001) refer to as S-O strategies. Also referred to as growth oriented strategies, these involve the firm utilising their

strengths to exploit the opportunities. A similar firm in an environment characterised by many threats would utilise its strengths to combat and nullify those threats. Referred to as S-T strategies by Hunger and Wheelen (2001), it is strategy with stability as its core aim. A weak firm in this position would follow a W-T strategy, also noted as being a retrenchment directed strategy, which might involve the weighing up of the most effective way to deal with the weaknesses and / or attempts to shift environment. If that weak firm was faced with a more optimistic environment, they might use the positive environment to deal with the weaknesses, so as to later be in a better position to take the opportunities present. Such a strategy aims also at stability.

In the next section, this synopsis is taken further to identify generic strategy options available to firms in these positions.

## DEVELOPING STRATEGIC OPTIONS

There are many formats and structures, which one can follow, in the development of strategic direction or, as Pearce (1991) refers to them, Grand Strategies. In this study, the flow developed by Lynch (2000) is used. The strategic options are broken into two parts. As with the strategic analysis, these are external / environment based options and then internal / resource based options.

### 2.17 Environment based options

Here the environment is analysed by the strategist in terms of the manner in which the firm is able to derive competitive advantage.

### 2.17.1 Porter's generic options matrix

Utilising the 'generic options matrix', developed by Porter (1985), as depicted (figure 2.4), the strategist would ask, on what basis does the firm derive its competitive advantage and what is the competitive scope of its actions?

Figure 2.4 Porter's generic options matrix

		<b>Competitive Advantage</b>	
		Lower Costs	Differentiation
<b>Competitive Scope</b>	Broad Target	<b>Cost Leadership</b>	<b>Differentiation</b>
	Narrow Target	<b>Focused Cost Leadership</b>	<b>Focused Differentiation</b>

If the answer to the above is that the competitive scope is aimed at a broad target market and the firm derives its advantage through its ability to produce items at lower cost, then the idea would be to follow a strategy of cost leadership. This should include elements such as finding and exploiting all sources of cost advantage. The strategist should pay close attention to the value chain and find all areas where cost can be cut, to produce the product in a cheaper way. Care must obviously be given to maintain an acceptable level of

quality. The result of such a strategy can be extra earnings or the ability to sell at a price lower than the competition.

A strategy of differentiation is best suited to a firm focused on the broad market but where being different to the competition is the best means of deriving competitive advantage. Such a strategy requires that the firm fulfil the needs and desires of the customer in a superior fashion to that of the competition. Such a strategy, Lynch (2000) suggests, is linked to market segmentation; finding a market that is willing to pay extra for the differentiated, added value.

Should the firm focus its attention on a more narrow market, it has to take a focused view of these strategy options and find a niche to focus its efforts on, tailoring the strategy to that group, perhaps at the exclusion of others. This strategy often leads to either a premium or an economy product. Growth potential is generally small and it is difficult to reach economies of scale. Regardless, such a strategy can still be highly profitable (Lynch, 2000).

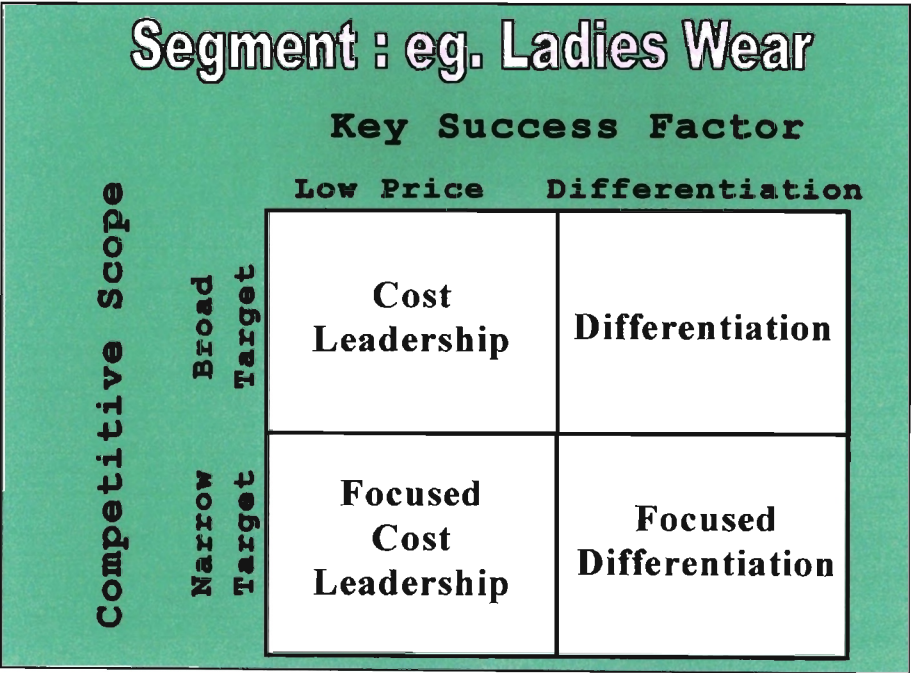
#### 2.17.2 Success within segments matrix

A criticism of the generic options matrix is that it is difficult to apply to a company that focuses on more than one market segment, where the needs of the one segment may differ from the other. Hence, as an alternative, or as a compliment, 'A success within segments matrix' for analysis. The idea is that the analyst would choose between price and differentiation as a key factor for success in a particular segment. Matching that to competitive scope, as with Porter's matrix (1985), will

allow the strategist to define a grand strategy for that particular segment.

For example, a company that manufactures both men's and lady's garments may need a different focus for each, if men demand a cheap product but the ladies demand all the frills and added value. It would not make sense to follow a cost leadership strategy for both segments. The resulting matrix would look as follows:

Figure 2.5 A success within segments matrix

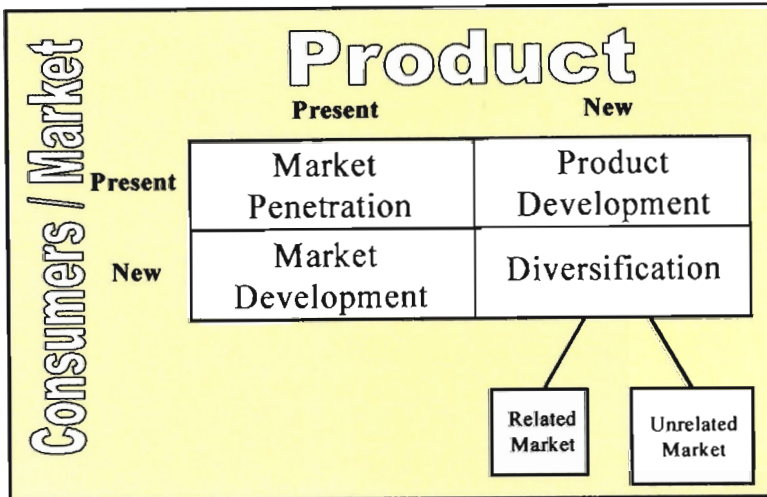


In the lady's wear segment, the result may be a differentiation strategy whilst in the men's wear segment it might be a cost leadership strategy. Such a firm will then have to find a way to adapt its production to allow such a dual approach.

### 2.17.3 Market options matrix

In developing a strategy, taking into account the markets to be focused upon, it is beneficial to draw on the work of Ansoff (1989) who provides the following 'market options matrix'.

Figure 2.6 Market options matrix



#### a. Market penetration

Should the firm decide to chase the same customers / market using the same product, then the strategic choice is to *penetrate the market*. Lynch (2000) suggests that this can be done in a manner of ways:

- **Withdrawal** - selling off of non-core businesses and raising monies for investment in the core business. This strategy is often suitable where the other products are in a decline stage.
- **Demerger** - This involves splitting the company into component parts, such that each division might focus its attention on a core function. This may lead to the disadvantage of cross trade and a loss of economies of scale.
- **Privatisation** - this may include a complete change in management style and can in fact lead to a change in

product range and service levels, however, the important fact is that strategy is likely to change as the ownership does.

A 'Market Penetration' or 'Concentrated Growth Strategy', is an option where there is:

- Rapid market growth and,
- The firm is in a strong competitive position

And, where the firm is looking to:

- Maximise on strengths versus overcoming weakness.
- It is looking to do this internally, using internal resources.

Pearce (1991) outlines that the benefits of these strategies include, that they:

- Direct resources to the profitable growth of a single product in a single market
- Exploit the organisation's existing expertise and
- Lead to enhanced performance

Characteristics of this Strategy:

- Ability to assess market needs
- Knowledge of buyer behaviour
- Consumer price sensitivity
- Effectiveness of promotion

To successfully utilise a concentrated growth strategy, the organisation should avoid situations that require under developed skills eg. Serving new customers / facing new competition / acquiring new technology. It should rather build on existing competencies, aim for higher productivity, higher coverage and more efficient use of existing technologies.

Pearce (1991) highlights the following conditions that favour a concentrated growth / market penetration strategy:

- i. Firm's industry is resistant to major technological advancements.
- ii. Firm's targeted market is not product saturated.
- iii. Firm's product markets are sufficiently distinctive to dissuade competitors in adjacent product markets from trying to invade the firm's segment.
- iv. Firm's inputs are stable in price and quantity and are available in amount required and time required.
- v. Stable market without seasonal swings that would otherwise encourage diversification.
- vi. When the firm enjoys competitive advantages based on efficient production or distribution channels.
- vii. Success of market generalists creates conditions favourable for concentrated growth.

Risks and rewards of the market penetration / concentrated growth strategy might include the following:

- Under stable conditions, this is the lowest risk grand strategy.
- In a changing environment, being focused on a single product does put a firm at a degree of risk, as it is vulnerable to changes in that segment.
- It is however an especially viable option for a firm with limited funds.

#### b. Market development

*Market development* is suitable when the organisation is looking to focus its existing products on a new market. This can include new segments, new geographic areas, or



even finding new uses for the product that lead to a completely different customer base.

'Market Development Strategies' are an option where there is:

- Rapid market growth and,
- The firm is in a weak competitive position

And, where the firm is looking to:

- Maximise strengths versus overcoming weakness.
- It is looking to do this internally, using internal resources.

Pearce (1991) lists some ways in which such a strategy might be pursued:

- Open new offices in new areas / overseas
- Attract other market segments
- Advertise in other media
- Enter other distribution channels
- Develop product versions
- Find new users / uses for the product

### c. Product development

*Product development* is a way of satisfying the existing market through the development of a new product. Innovation is a key way to maintain market leadership in many industries. It is the reason for developing the product that often determines the route that product development takes. Reasons for product development include:

- To exploit new technologies
- To maintain an innovator image
- To counter threats of new entry
- To utilise excess capacity

'Product Development Strategies' are an option where there is:

- Rapid market growth and,
- The firm is in a weak competitive position

And, where the firm is looking to:

- Maximise strengths versus overcoming weakness.
- It is looking to do this internally, using internal resources.

Pearce (1991) notes that a product development strategy would likely involve substantial modification of existing products or the actual creation of new products. The idea would be "based on penetration of existing markets by incorporating product modifications into existing items or by developing new products with a clear connection to the existing product line".

An 'innovation strategy' is a form of product development strategy, especially suitable where the firm is looking to:

- Maximise strengths versus overcoming weakness
- It is looking to do this internally, using internal resources

Innovation creates a new product life cycle, which leads to the avoidance of competition and assists the firm in staying ahead.

Lastly, if the firm decides to *diversify*, it is aiming new products at new markets. Such diversification can be related or unrelated.

#### d. Related diversification

The more related the diversification, the lower the risk due to the fewer unknown variables. It suggests some level of connectedness with the organisation's existing value chain. Pearce (1991) suggests that such diversification can happen in three ways:

##### i. Vertical integration

Vertical integration is a viable option where there is:

- Rapid market growth and,
  - The firm is in a strong competitive position
- And, where the firm is looking to:
- Overcoming weakness versus maximising strengths.
  - It is looking to do this externally, looking for external relationships.

Vertical integration can happen on two levels, backwards or forwards:

##### • Backwards

Pearce (1991) suggests that the main reason for integrating backwards is often the desire to increase the dependability of supply.

##### • Forwards

The main reason for forward integration is, however, due to the benefits that accrue from stable production.

##### ii. Concentric diversification

The motivation behind such a strategy may be to increase growth or stock value or, simply, to make better use of existing funds or enhancing economies of scale and efficiency.

Concentric diversification is an option where there is:

- Rapid market growth and,
- The firm is in a strong competitive position

Or where there is:

- Slow market growth and,
- The firm is in a strong competitive position

Or where there is:

- Slow market growth and,
- The firm is in a weak competitive position

And further, where the firm is looking to:

- Maximise on strengths versus overcoming weakness.
- It is looking to do this externally, looking for external relationships.

A concentric diversification strategy often involves acquiring similar technologies and products to those which the organisation already owns / utilises.

### iii. Horizontal integration

Aimed at giving the acquiring firm access to new markets, this strategy eliminates part of the competition and is best suited where there is:

- Rapid market growth and,
- The firm is in a weak competitive position.

And where the firm is looking to:

- Maximise strengths versus overcoming weakness.
- It is looking to do this externally, looking for external relationships.

Related diversification creates synergy and should grow the business.

#### e. Unrelated diversification

Also termed *conglomerate diversification*, this strategy is a profit driven one. It has little concern for product or market synergy, concerning itself primarily with financial synergy. It is best initiated in a slow growth market and it is not too important whether the firm is in a strong or weak position since it is suitable to a firm either trying to overcome a weakness or to maximise on a strength. A firm following this strategy is looking to do this by entering into external relationships, possibly because it lacks the capability internally.

#### 2.17.4 Expansion method options

Lynch (2000) utilises one more matrix, (figure 2.7), with regards to the discussion of environment based strategic options development. As can be seen, it examines the options available to a firm in considering whether it should expand within its own borders or whether it should cross into the realm of international business and whether it should consider expanding through relationships with outside firms. Within the matrix, the strategic choices available to the firm are listed, according to their choices.

Figure 2.7 Expansion method matrix

		Company	
		Inside	Outside
Geographic Location	Home Country	Internal Development	Merger Acquisition Alliance Joint Venture Franchise
	International	Exporting Overseas Office Overseas Manufacture Multinational Operation Global Operation	Merger Acquisition Joint Venture Franchise Turnkey Licensing

2.18 Resource based options

Lynch (2000) highlights three main resource based options:

2.18.1 Value chain options

He says that the strategist needs to look at where value can be added and new resource capabilities developed. This can be done either early on in the value chain (upstream) or later (downstream). Choices made in terms of these issues will influence the allocation, direction and emphasis of the organisation's resources.

2.18.2 Resource based view

Here, Lynch (2000) suggests the firm is looking to select a strategy that will deliver sustainable competitive advantage by identifying such advantages and exploiting them. He suggests that areas within which this can be done include; through the architecture of the firm, in the building of the firm's reputation, through innovation

and by addressing core competencies so as to specialise in these.

### 2.18.3 Cost reduction options

Lynch (2000) lists the main ways to attain cost reduction as:

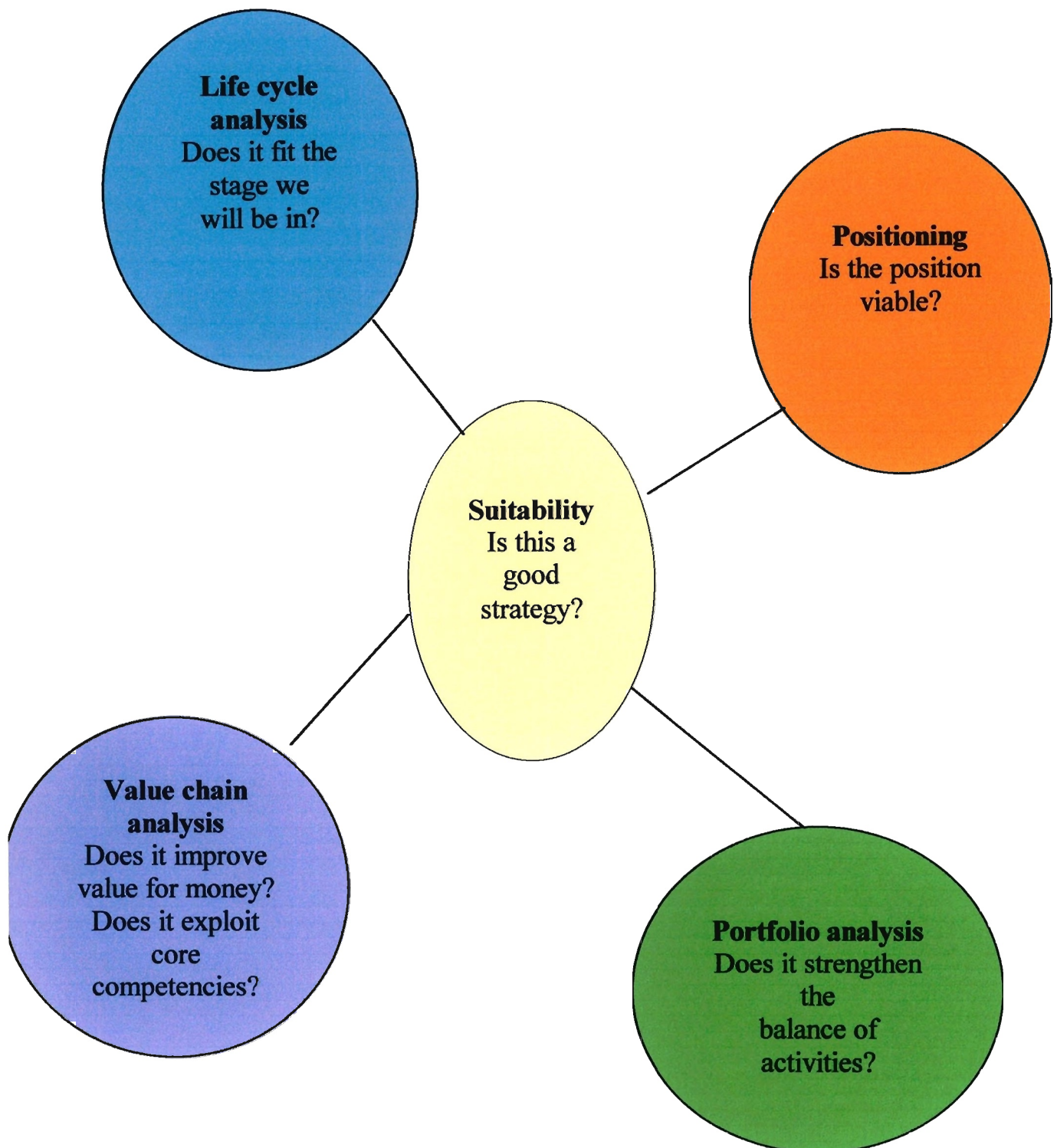
- a. Through process design
- b. Supplier relationships
- c. Economies of scale
- d. Experience curve effects and
- e. Capacity utilisation

### ASSESSING SUITABILITY

Assessing the suitability of the grand strategies chosen, is concerned with matching the strategy back to the environment and the circumstances within which the organisation is operating. Johnson and Scholes (1993) suggest that this goes through a two-stage process. The first being, to establish the strategic logic or rationale behind the choice, asking WHY the strategy is a good idea by assessing the extent to which it:

- Exploits opportunities and avoids threats
- Capitalises on strengths and core competencies and disables weaknesses
- Addresses the cultural and political context

They identify the second stage as being to look at the merits of the choice by screening the options for further evaluation. This is done by looking at the following, as adapted from Johnson and Scholes (1993):





2.19 Life cycle analysis

In this assessment of suitability, use is made, of the life cycle or portfolio matrix as shown in figure 2.8.

Figure 2.8 Life cycle matrix

		Stage of industry maturity			
		Embryonic	Growth	Mature	Ageing
Competitive position	Dominant	Fast grow Start up	Fast grow Attain cost leadership Renew Defend position	Defend position Attain cost leadership Renew Fast grow	Defend position Renew Grow with industry
	Strong	Start up Differentiate Focus Fast grow	Fast grow Catch up Attain cost leadership Differentiate	Attain cost leadership Renew Focus Differentiate Grow in industry	Find niche Hold niche Hang in Grow with industry Harvest
	Favourable	Start up Grow with industry Focus	Differentiate Focus Catch up Grow with industry	Harvest, catch up Find niche Hold niche Renew Turnaround Differentiate, focus Grow with industry	Retrench Turnaround
	Tenable	Find niche Catch up Grow with industry	Harvest, catch up Hold niche, hang in Find niche Turnaround, focus Grow with industry	Harvest Turnaround Find niche Retrench	Divert Retrench
	Weak	Find niche Catch up Grow with industry	Turnaround Retrench	Withdraw Divest	Withdraw

The purpose of this assessment is to identify whether the strategy is fitting with the life stage that the industry finds itself in. Using eight environmental factors, Johnson and Scholes (1993) position the industry along the horizontal axis as being either in an embryonic, growth, mature or decline phase. They list these eight external factors, shown in table 2.1, with the characteristics of each as exhibited in an embryonic and an ageing environment.

Table 2.1 Measuring life stage

Measured by	Embryonic Stage	Ageing stage
Market growth	Rapid	Stagnating
Growth potential	High	Low
Breadth of product lines	Narrow but increasing	Narrow but decreasing
Number of competitors	Increasing	Decreasing
Spread of market share	Fragmented	Consolidated
Customer loyalty	Growing as firms search for new customers	Falling with demand
Technology	Large and frequent changes	Plateau
Entry barriers	Lower	High

This is then matched through the matrix to the competitive position of the firm. Competitive position is characterised as being

- Dominant - quasi-monopoly
- Strong - the organisation can follow their strategy of choice, without too much concern for the competition
- Favourable - this is where no single competitor stands out, but the leaders are better placed.
- Tenable - position can be maintained by specialisation or focus
- Weak - The organisation is too small to survive independently in the long run.

## 2.20 Positioning

In deciding if a company and its strategy are well positioned, the strategist must look at the long run ability of the strategy to survive and to continue delivering success. To do this, one has to answer: considering competitive rivalry, how are the organisation's relative competencies / abilities positioned to compete? The strategist should look at the core competencies on which the strategy is based and ask whether these are sustainable and unique. Another question that Johnson and Scholes (1993) suggest asking is whether the segment aimed at is growing in terms of demand.

The strategist should determine whether the core competencies are valuable and rare to the customer, such that they are able to support the strategy. To do so, they must support the type of strategy chosen. For example, if a core competence is a special technology or process that the organisation has developed, to produce a product far cheaper than the competition, then this would support a cost leadership based strategy.

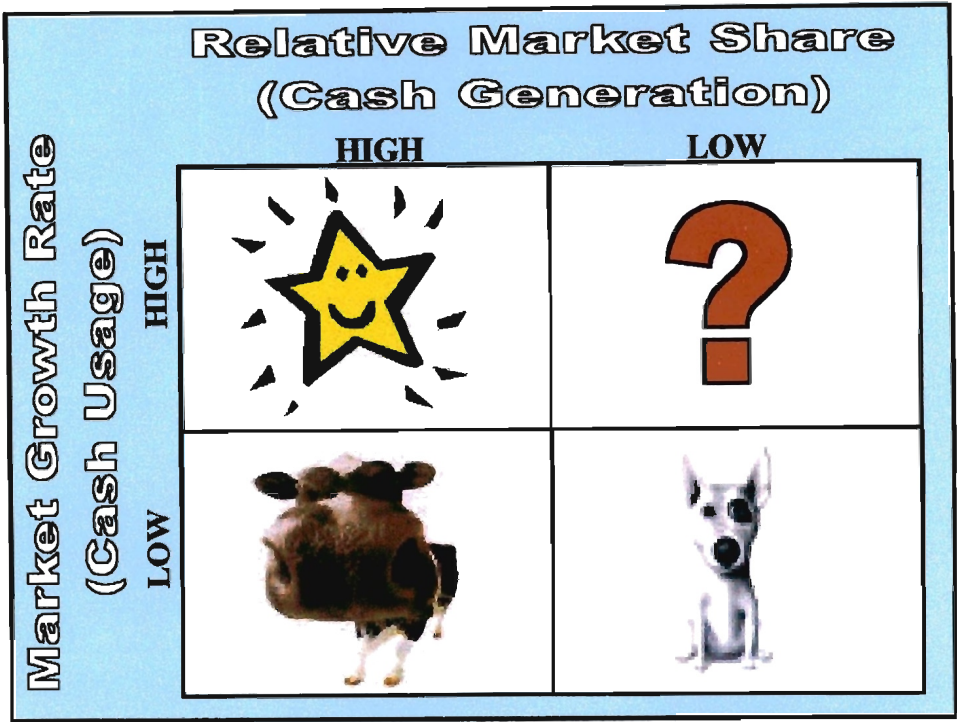
## 2.21 Value chain analysis

A value chain analysis serves many purposes. One of these is determining the suitability of the strategy chosen. The idea, here, is to assess the degree to which the chosen strategy reconfigures the value chain activities and linkages, such that the competitive position of the firm is improved, value for money increases and / or costs are saved.

2.22 Portfolio analysis

The Boston Consulting Group developed the following matrix in the 1970's, in which each of the firms businesses are plotted against the rate of market growth and relative to their market share (Lynch 2000).

Figure 2.9 B.C.G Model



It paints a picture for the strategist, allowing him/her to ask whether the strategy is going to improve the picture. The picture should provoke thought from the strategist (Internet 1).

A question mark requires innovation and development to become a star thus the strategy should provide this. At the same time, it is likely to be a costly process to move it to the star position, so, the strategist should determine whether the cash cow businesses in the portfolio have sufficient reserves to carry it through this process. One might also compare different question

mark businesses and rank them according to which are the most promising.

## **IMPLEMENTATION OF STRATEGY**

The implementation of strategy is all about creating cohesiveness between strategy and the functional aspects of the business. Already, the development of strategy has taken into account the circumstances as exposed through the strategic analysis and hence, strategy should be addressing and utilising the functional aspects of the business.

Implementation is about the hands on practical part of strategy. It is therefore crucial that it be executed efficiently.

### **2.23 People and strategy**

Strategy is developed by people, implemented by people and it affects people. It is thus crucial that the organisation be adequately staffed to carry out the chosen strategy. A strong management team is required to spearhead the strategy and it may be necessary to recruit and train talented employees to carry out the strategy successfully.

### **2.24 Structure and strategy**

The first task for management is to identify strategy-critical activities within the value chain and consider outsourcing those that are not core. Especially where it may be cheaper or better quality may be attained through such outsourcing.

The structure should support the speed of decision making required to carry out the strategy and react to potential

changes and problems. Thompson and Strickland (2003) say that it is best to reengineer the work effort, pulling the pieces of strategy-critical processes out of the remote functional departments and rather creating process departments charged with performing all the steps needed to produce the strategy critical results. This they refer to as business process reengineering.

## 2.25 Budgets and strategy

Budgeting is very important. Too little funding will hamper the successful execution of the strategy while too much is a waste of organisation resources. For this reason, management needs to be actively involved in implementation.

Funds should first be allocated to strategy critical areas and projects that are no longer justified should be terminated so that the funds might be better utilised elsewhere.

It is also appropriate to shift resources between areas, to the areas that are most strategy critical.

## 2.26 Policies, procedures and strategy

Thompson and Strickland (2003) point out how a change in strategy may require a change in internal operations and work practices and that this may result in resistance to that change by those affected or those expecting to be affected.

Strategy supportive policies and procedures have the benefit of:

- Providing guidance, from the top down, as to expected behaviour and procedures for how tasks are to be done.

- Aligning actions and behaviour with strategy since most people will refrain from directly violating company policies.
- Providing consistency, which means the strategy can be better enforced between locations.
- Being a powerful tool for shaping the organisation's culture.

It is important that management find the right mix of policy and freedom as too much policy stifles creativity and may detract from stimulation in the work environment. There must be just enough to set boundaries while leaving employees empowered enough to carry out their jobs utilising their individuality.

## 2.27 Best Practices

Above, tactics for improving performance were discussed, as well as methods for viewing the firm's performance in terms of its historic performance, industry norms and competitive standards. It is even more crucial that, at the stage of implementation, the firm carry out its execution of strategy in ways that improve on these relationships.

Best practices involve a commitment by the organisation to continuous improvement in practices critical to the strategy and especially, where there is impact on the organisation's bottom line.

Creating best practice orientated actions can be done by comparing the practice / function to the best in the company or to others in the industry that the firm may aspire to (Thompson and Strickland, 2003).

## 2.28 Total quality management (T.Q.M)

This is another form of continuous improvement in performance levels where the organisation aims for 100% accuracy in all activities. It involves benchmarking against competitors and is further reliant on team based work design, particularly since T.Q.M is something that requires the participation and support of all the organisation's employees. To be successful, a T.Q.M based strategy needs to, therefore, empower and include all employees.

Done correctly, T.Q.M builds core competencies that are hard to match, hence leading to competitive advantage. It does, however, tend to take time, effort and money.

Compared to process reengineering, T.Q.M is an incremental move towards improvement, whilst reengineering tends to aim at quantum gains (Thompson and Strickland, 2003).

## 2.29 Some practical steps

What follows are some practical steps in implementing T.Q.M, best practices and other such systems and procedures.

### a. Building a T.Q.M culture

The first step to building a culture of T.Q.M is to have a quality vision with specific measurable targets and objectives. Hiring good people that you give quality training is another positive step towards building such a culture.



T.Q.M requires that employees and the company as a whole, place emphasis on preventing faults versus finding them in inspection or through customer returns.

It requires that employees be empowered and that the firm be unrelenting in its mission to provide ultimate performance for the demands of their customers.

**b. Support and information systems**

It is critical that, ahead of time, systems be put in place, that support the execution and the actual operation envisaged.

Further, information systems should provide the data, throughout the process, to enable and empower managers to implement the strategy effectively. Information, in this case, would track strategy critical targets and performance levels. Examples would include areas of customer data, operations and output data, employee data and data relating to other relationships, such as with suppliers.

**c. Strategy supportive reward systems**

Lastly, practical ways to get those who are to carry out the company's strategy headed in the right direction are examined. The first intuitive step is to align employees' goals with those of the organisation. This is best done through linking reward to strategy relevant performance outcomes.

Both monetary and non-monetary rewards are important but, either way, they have to be relevant.

Non-monetary rewards tend to build intangible bonds and should not be neglected.

Another point to note is that although one might make use of both positive and negative motivation, emphasis should be on positive.

Thompson and Strickland (2003) highlight some points in setting effective reward systems in place. They say that these systems should be:

- Linked to results.
- Fair and extended to all, not just top management.
- Should make up a major portion of the employee's total compensation package.
- Time between measurement / review and reward should be short.
- DO NOT reward non-performers as it detracts from the sincerity and authenticity of the system.
- The goals and targets for reward must be clear to all and there should be no hesitation in rewarding when the targets are met.

### 2.30 Summary

The preceding chapter went through a series of steps, each of which started from a broad base and narrowed in focus. It was said that the first step in developing a successful strategy, is to have a clear mission and set of goals. From there, the firm must conduct an indepth study of its environment, from the remote to the near factors. Next follows a study of the internal workings of the organisation, from a broad resource audit to examining specific strengths and weaknesses and the flow of activities through the firm's value chain.

Matching the mission to the environment and internal workings of the organisation lays the foundation for developing grand strategies and that is the next theoretical step that was discussed. Again, working from a broad to a narrow focus, the discussion moved on to more specific strategies within the 'grand' scheme and discussed the fundamentals of proper and effective implementation that will theoretically secure the success of the strategy.

From this theoretical base, the study can move on to implementing these steps in practice, as the focus in the next chapter, is shifted towards developing an understanding of the specific case in question.

## Chapter Three

### A case study of the company

#### 3.1 Introduction

Having established a theoretical structure for the development of strategy, the study can move on to the company in question. This chapter will look at a company called Duys Aftermarket Components (D.A.M). The purpose of this section is to set the scene. It involves the collection of as much relevant information as possible, for later utilisation / analysis and the actual generation of strategic alternatives. What follows, is an exploratory study of an organisation in its infancy, brought about due to a state of flux and uncertainty in the environment and more specifically with its parent-company's single most important client.

The discussion which follows examines the organisation from before its birth, by looking at a brief history of the holding company and the type of environment that has lead to its creation. From this general understanding, facts are gathered about all the stakeholders to the business as well as the near and remote environment.

#### 3.2 Background and history

(Extracts here are taken and adapted from the Duys website: (Internet 2) and from various company newsletters (Internet 3); with permission from The Duys Group)

What is today the Duys Engineering Group, was founded as Pieter M. Duys (Pty) Ltd on 1 July 1960, by a Hollander, Mr. Pieter M. Duys.

Hard work, good engineering and perseverance saw the company grow steadily. In 1980 he retired as managing director of the company, handing over to his son Henk W. Duys. Henk Duys remains as the C.E.O of the Duys Group, having built it up from one, medium sized engineering firm, to a large group consisting of eleven companies.

In a South African engineering environment characterised by large companies dominating big contracts and small operators taking care of work at the other end of the scale, the Duys Engineering Group stands apart as an innovative organisation that straddles this spectrum.

Duys differs from other engineering companies in its 'one-stop quality shop' approach to its business. Engineering diversity, agility and quick responses are among the qualities that enable the company to operate effectively in most sectors of the South African market.

The group also has the capability to identify and occupy niche markets by rapidly reorganising its technical and human resources. The ability to work with clients on a long-term basis is a strong feature of Duys' capability:

From the numerous symbiotic relationships that Duys has developed with its clients, it has evolved correspondingly specialised resources and interlocked expertise that, cost-effectively, meets varied client needs.

Incorporated into the Duys Engineering Group's philosophy of creating wealth by adding value to materials through sophisticated technology and good service, is a strong commitment to building partnerships.

Partnerships are viewed as ongoing relationships with the group's clients and financiers, as well as the communities and environment in which it operates. When Pieter M. Duys created the business in 1960, he began with a vision to challenge opportunity with dynamic and innovative solutions. As Duys moves into the 21<sup>st</sup> century that vision has grown and matured.

### 3.3 Mission of the Duys Engineering Group

"Our mission is to build focused, medium sized, businesses, with strong bottom line motivated management, active in strategic industries where we can offer our engineering and manufacturing skills in close partnerships with our clients who in turn will provide us with longer-term stability and growth for the mutual benefit of our shareholders, employees, customers, suppliers and the communities in which we operate" (Internet 2).

### 3.4 Stated Key Objectives by 'The Duys Group'

The Duys Engineering Group Strives for:

- World Class Quality
- Global Competitive Cost
- Stable Production

#### 3.4.1 World Class Quality

"In our daily businesses, we build long-term relationships with committed clients who expect the best quality in the final product that we make for them, the level of service we give to them and the way we conduct our business dealings with them.

However, many of our clients are from world-class companies. It is therefore imperative that we continue to strive for 'World Class Quality' in everything that we do and how we do it. 'Good' quality is not enough. It has to be 'World Class Quality' to meet the needs of precious clients" (Internet 2).

#### 3.4.2 Global Competitive Cost

"Duys operates in a global environment and we compete with thousands of companies all over the world. Our clients and customers are world-class players who operate and sell their outputs to the world out there. To survive they must do this at globally competitive costs. Their success is our success and our success is their success. So we are partners and we have an obligation to ensure that we are giving the best possible products or service at the best possible price.

But making profits does not mean simply increasing our price to a level above our costs. It means cutting costs, eliminating inefficiencies and waste, it means doing things differently, doing things better, and continuously improving what we are doing. Before we increase our prices to our clients, we need to ensure that we have done everything possible to ensure that our operations, and the way we do things, are as efficient as possible" (Internet 2).

#### 3.4.3 Stable Production

"Duys aims for predictable and sustainable output by continuing to nurture good relationships on the workshop floor to ensure that workers are well trained, that they are healthy and that they work safely.

We need to maintain good and reliable sources of materials and consumables coming from companies that subscribe to the same values and ideals that we do. We need to constructively eliminate unplanned events, which may disrupt our production plan. We need to pay a fair wage and reward for a fair day's work. We need to continue to subscribe to employment equity, fair labour practices and open relationships. We need to continue building on the partnerships that we have in our businesses with all of our staff, by respecting each other's needs and understanding the role which each of us has to play in the working environment" (Internet 2).

### 3.5 Duys Transport

This is one of the eleven Duys companies. Originally established to provide support services to its sister companies, it has now grown into a general transport contractor.

The small 8 tonner is still delivering components to Toyota Prospection for Duys Components Manufacturers.

### 3.6 Duys Component Manufacturers (D.C.M)

This specialised operation manufactures components on a batch basis - primarily for the 'original equipment manufacturers' (O.E.M's) in the automotive and commercial vehicle industries.

Duys Component Manufacturers also has ongoing automotive assembly contracts to manufacture and supply components, including general bracketry used in heavy truck assembly. It also manufactures items such as bull bars, towbars and fuel tanks for lighter vehicles. Products are slowly, also being directed at export markets.



Most product development at O.E level requires a close relationship between manufacturer and D.C.M before the component is actually made. This frequently requires a co-operative programme of product development and testing.

The manufacture of components for this quality-critical market requires an efficient batch production process, tight controls and extremely high quality standards. Sophisticated production processes include laser cutting, CNC folding, pipe manipulation, sheetmetal duplicating, punching, pressing, robotic welding, metal treatment and powder coating.

### 3.7 Duys Components' mission statement

"We design, manufacture and supply differentiated automotive and related components for the OE, P&A and Aftermarket, where profit opportunities exist. Manufacturing flexibility, quality, market responsiveness and best-cost manufacture, are cornerstones of our success" (Internet 2).

### 3.8 D.C.M's mission directed work teams

In the rapidly changing world of the automotive industry, Duys say, they realised that the future of the company could only be secured by working together successfully as a team. Their ability to be customer-focused, flexible and to respond quickly to opportunities, as they arise, depends more on people working together than on equipment and technology.

The journey of discovery started in November 1999 when the workplace forum, consisting of a cross section of staff members throughout the company, including union

representatives, visited different sites to see teams in action. The forum became Duys' benchmarking for working groups and the subsequent choice for which programme to use for their team structure. Working together with consultants, Competitive Dynamics, they began training in August 2000. Eight months down the road they were thrilled with the progress made in reaching their objectives.

The entire workforce has been divided into small teams, which meet every day at 'start of shift' for seven minutes. They follow a set agenda dealing with concerns affecting the production plan for the day, quality issues, morale and cost issues which will affect their performance as a team. Every effort is made to resolve these problems themselves. Each team chose their own name and a competition runs every month for best team performance.

The teams are all evaluated against a set number of criteria by an audit team, which is selected from the steering working group.

Later in the morning, the team leaders (supervisor level) meet for a 'level 2' or as they prefer to call it, 'Dragon Slaying' session where unresolved problems are addressed. Level 3 meetings are held weekly in the 'Team Room' and Level 4 (Top management and C.E.O) meetings, monthly.

In the 'Dragon Slayers' meeting, teams see themselves as each other's suppliers and customers. Problems in supply, demand or delivery between teams are depersonalised as 'dragons' and killed in this meeting.

All dragons can obviously not be killed with a single blow and sometimes it takes a while, but with a positive attitude, teamwork and determination, problems are solved. "The effect and changes these work teams have created within the company is tangible", says managing director, Jan Visage.

This division of the company into 'mini businesses' revolves around continuous improvement on four levels that are measured daily. These are:

- Quality
- Speed
- Cost efficiency and
- Morale

Each mini business defines the criteria by which it is measured for these main categories so that the process is meaningful and ensuring of the correct results. Each 'team' sees the team upline as a supplier and the team downline as a client. This done is from a quality viewpoint, not a cost point. The competition and pride it has created has been very fruitful but it is difficult to keep the momentum.

Apart from a happier workforce, D.C.M succeeded in bringing down rejects from 10% to less than 1%. Their teams delivered results in responsiveness and customer focus. They were awarded the first stainless steel bull bar contract with Toyota SA and increased the number of new components supplied to MAN Truck & Bus by 30 in 6 weeks. In 2001, they also won a 4-year export contract, to supply components to the U.K sports car company, Lotus.

D.C.M also secured a contract to supply a range of parts for a major chain of fitment centres. D.C.M recently increased its capacity to make components for its heavy truck assembler customers, successfully developing an 800-litre truck fuel tank. They also invested over R2-million in additional buildings and new equipment to support their stainless steel tube manipulation facility. This includes a new Addison pipe-bending machine with scanner and a new pickling plant as well as pre-polishing and polishing lines. This facility now has the capacity to produce about 30 products a day. All this to support the manufacture of stainless steel tube, bull, nudge and roll bars, side steps and rear step bumpers.

D.C.M has a strategy to market under the "Duys" brand name and management are hoping that the whole group will benefit from an overall strategy of building on the "Duys" brand.

The Lotus project, which required a completely new production line, proved to provide D.C.M with invaluable experience as the required tolerances are extremely tight, in some areas measuring only  $\frac{1}{2}$  a millimetre, which is a big change from their normal tolerances. This was a learning curve for everyone, but soon all controls were in place and the line set up according to world class manufacturing practices.

July 2003, the new Toyota Hilux 4 x 4 and the Raider 4 x 2 range are all fitted with components supplied by Duys Components as a first tier supplier. The components involved are the nudgebar, rollbar, sidesteps, hood lock protector and bin reinforcement plate.

Mid 2003, Duys headoffice decided to split D.C.M into three distinct operational areas to allow it more focus on each:

- Original equipment for the automotive industries as first and second tier suppliers, fabricators, assemblers and welders;
- Original equipment for the heavy truck assembly industry;
- After market supply of manipulated tubular products for the recreational vehicle and light commercial vehicle (Duys Aftermarket Components (D.A.M) is born).

D.C.M expects to expand its press shop into a fully fledged tooling and pressing division. It expects to receive a number of new orders for the export of ancillary equipment for light utility vehicles and plans to expand its penetration into the truck assembly O.E.M's, utilising its broad capability base.

### **3.9 D.C.M to divisionalise to meet motor industry's requirements**

Over the last three years the dramatic growth in product complexity and sales at D.C.M brought with it growing pains which now need to be addressed to bring about focus and an unbundling of production complexity. Growth in the supply of fabricated Truck components to both Toyota SA and MAN Truck and Bus and the export contract to Lotus Cars PLC also increased manufacturing and quality systems complexity.

These pressures have been intensified with the recently divulged plans of Toyota SA with regard to the future of their manufacturing plant and the products they will be requiring from D.C.M. This has given rise to an opportunity for D.C.M to grow their 'original equipment' business within a very focused manufacturing plant, capable of high volume complex part production.

To date, D.C.M has supplied accessories, which have been fitted on-line, to the Hilux Raider models. These products have been unique to South African market requirements. This situation will now change and the parts developed for South African conditions will also be subject to evaluation by Toyota Japan and will then be available for supply to any accredited Toyota facility worldwide, not just in South Africa.

In order to meet these changing customer needs D.C.M is currently being transformed into three business divisions: Duys Truck Components, Duys OE Components and, Duys Aftermarket Components (Internet 3).

Duys Aftermarket Components, as a fledgling company, does not yet have its own mission statement. Its general strategy for competing has been developed in the form of a marketing plan, but has not been laid out in writing and has not been communicated to the rest of the company.

Through D.C.M, D.A.M is involved in biannual environment scanning and analysis. At the same time, changing stakeholder needs are discussed and planned for in anticipation of the future. This said, however, management believes that both environmental awareness and customer needs analysis is a living thing that management

is aware of day to day, although it is not a formal process.

Budgeting for the needs of the business is on an ad hoc basis, as and when it is perceived that the business requires funds for a particular project. This is then weighed up against other projects within the group. Management justify the requirement for funds and limited resources are then spread across the companies. There is currently no formal budgeting process within D.A.M itself.

Similarly, there is an absence of formal back up plans. As the situation changes, plans are adapted on the move.

### 3.10 Suppliers

The manufacture of D.A.M components involves the purchase of many items from stationary to powder for spray painting, however, the largest input is steel, comprising 48 to 52% of the end product's total cost. D.A.M purchases two types of steel, mild and stainless, in sheet, plate and tube form. Of mild steel, there are many suppliers to choose from. These suppliers are wholesalers and distributors that purchase from monopoly-like companies such as Iscor, who set their prices according to the ruling price on the London Metal Exchange (L.M.E) and according to Rand / Dollar exchange rates. Prices are very 'well managed' by the wholesalers, to the extent that they are rumoured to border on collusion. This is exacerbated by the fact that there is a standard 15% import duty on steel. One steel supplier, Argent, went as far as buying Excaliber, a competitor to D.A.M. The resulting control over price,

by Argent, resulted in Duys losing the side step business for the Toyota Hilux, to Argent.

Stainless steel on the other hand, can be purchased from very few sources, with one main supplier in South Africa: Columbus Stainless.

There are many firms like Duys, buying mild and stainless steel, both in and out of the automotive industry. Looking for high quality steel yet needing low prices to compete, D.A.M is a fairly insignificant client. D.C.M spends approximately R250 K per month on tube and a similar amount on plate.

### 3.11 An interview with Autotec

Nicole Mason runs Autotec, a company that distributes chemical additives to the automotive industry. Their products are approved by the Macarthy Group amongst others and their differentiation allows Autotec to charge above industry average prices, whilst remaining one of the top suppliers of auto-additives in the country.

Nicole was asked, what in her opinion, is the secret to success in this industry.

Having a quality product, Nicole says, is essential. It has to be acceptable to the dealership's head offices, otherwise the individual dealerships will not be allowed to supply, fit or utilise the product. Being a recognised supplier of Toyota, Duys does not have a problem in this regard. The same applies to Delta / Isuzu, Ford / Mazda and Mitsubishi, all of whom Duys are approved to supply. Only Nissan are not on the list.



The next point she highlighted was to do with selling. Although there are factories in the background, the key to success, she believes, is in the effective and persistent marketing and selling of the product. Continually being on the customer's doorstep with new sales material, incentives and in general, just building relationships.

She believes that when your product is fairly similar to that of the competition, it is convincing the sales people at the dealerships that will count. The end user will generally buy the product that the professional recommends, particularly if there is marginal difference for them to see in quality and price. The key, she elaborates, is therefore to have the dealerships punting your product. How does one achieve that? Incentivise them she says. And, make sure they have all the necessary material to sell the product to the end user.

How do incentives work? There are various ways; Nicole highlights a few. Sales people for new vehicles and those in the parts department can be incentivised on number of products sold or on turnover, with monetary or other rewards. These go through the dealership so that they are paid correctly through the salaries, taking tax into account. These are given to the dealerships as discounts on the product which they can then pass on to their staff as performance rewards.

Allowing the dealership to give certain discounts on the product is another way to push sales. Sales staff can be further incentivised by allocating a portion of the money made if the part is sold above the discounted price.

Incentives have to be sanctioned by the Dealer Principle and even up to the group's Managing Director.

Nicole states that it is her experience that the reps or agents working for the business need to have good rapport in the business, experience and excellent sales ability. If you are starting from that base, she says, then it is a matter of incentivising your own people to push the boundaries.

From the point of view of what is important to the clients, Nicole says that it is response times, from point of order to delivery and from time of complaint to provision of a solution. She says that it is by providing Macarthys with full service back-up, making sure that if there is a fault, that the product is just replaced, no questions asked, that ensures that they are saved on hassle and her position is maintained.

### 3.12 Customers

Perhaps a major weakness within D.A.M is a lack of knowledge as to the market they are involved in. There is little awareness as to the market size, growth rate or otherwise and number of new vehicles being launched annually.

D.A.M has a multitude of customers but these seem to largely fall under the umbrella of larger organisations, which set the conditions of supply. Whilst there is an emerging trend for suppliers like D.A.M to develop two brands, one that goes through the umbrella buyer and another that seeks to market direct, this is a new avenue for D.A.M to investigate.

There are upwards of 400 Toyota dealerships alone, who buy through the Toyota Parts and Accessories department. This means that Duys has one debtor: Toyota P & A, but it means that their goods bear the cost of an extra middleman, whilst still having to "sell" the product to the individual dealer. If the trend sees to it that dealerships each buy direct, without worry from 'head office', then this situation will become very different.

For now, buying through the P & A department allows the individual dealer to utilise the power of the group to squeeze the margins to breaking point.

The two main clients held by D.A.M are South Coast Car Radio and Toyota Tsusho, with South Coast purchasing around R200 K per month from Duys. Toyota dictates to South Coast but not yet to Tsusho. This may, however, change.

Recently there was a case where 4 X 4 Megaworld (a client) started producing their own bull bars, showing that no component supplier is safe from vertical integration. Whilst it is possible therefore, to backward integrate, customers will likely battle due to high experience curve effects and a resulting lack of focus on core business.

Lastly, it is noted that D.A.M's products are cosmetic to a large degree. Fashions are a luxury and trends may change. Therefore, it is essential to be at the crest of the wave in defining the fashion instead of just following behind.

In an attempt to develop further understanding of the needs of the market and to establish where, in the customer's eyes, Duys is missing the mark, telephonic interviews were held with various existing D.C.M customers. These customers differ in that some are Toyota dealerships, ordering through the 'Toyota Parts and Accessories' division, whilst others include a Mitsubishi dealership and some exclusive 4 X 4 accessories outlets.

Issues of importance to these customers differ due to their different focuses. For details of the interviews, please see appendix 1 where they are scripted.

### **3.12.1 An interview with Johan Burger of Macarthy Toyota**

In a telephonic interview with Mr. Johan Burger of Macarthy Toyota in Pretoria, I had opportunity to ask what Macarthy felt were deciding factors in their purchasing of bull bars and other such accessories.

Of primary importance, noted Mr. Burger, is timing of delivery, as ability to store the range of products is too expensive and takes up too much space - the products are bulky and costly. Promptness would also have to pertain to addressing of problems and replacement if need be. As retail sales and fitment centres, Macarthy are under pressure from their clients to deliver the product sold as quickly as possible. To do this, they believe same day delivery is important. Mr. Burger noted that Duys used to have a depot in Gauteng but that this has been closed. He said Macarthy generally order from B.T.M who have facilities in Mayerton and are able to offer same day delivery.

Mr. Burger noted mild steel, powder coated products as the biggest movers.

Ordering by Macarthy Toyota is done online through Toyota. Macarthy receives an R3 number which details the product code and this is faxed through to their chosen, approved Toyota supplier. Toyota Marketing uses the R3 number to track what is purchased and suppliers bill Toyota Marketing, not the dealer. This is easy in that Duys then only has one debtor, but at the same time, the dealers have all the power of O.E in their collective buying.

With regards to the public purchasing bull bars and the like, Mr. Burger highlighted that they are luxury items and that fleet owners are not interested in spending more on such accessories, especially since their cost is not a negligible amount.

On branding, Mr. Burger was of the opinion that brands are not critical. The supplier has to be Toyota approved, but from that point, it is heavily reliant on the individual firm to make the selling process easier for the Macarthy dealer, through provision of excellent sales material that can be used to show the product to the end buyer.

Mr. Burger went on to say that bull bars are not highly differentiated products and so it is on availability of brochures and sales material as well as price, that the buyer chooses a particular brand.

Mr. Burger did say that Duys' quality was fine and that it was their lack of sales material and attention to the

individual dealerships that was their main short-coming, on top of their inability to deliver promptly.

Lastly, he said that compared to other manufacturers, Duys was lacking in product range and choice.

### 3.12.2 Dealerships

Dealerships interviewed are comprised of Norman's Toyota, Secunda Toyota, Midway Toyota and Honeydew Toyota in the Gauteng area and Paarl Motors, a Mercedes and Mitsubishi dealership in the Cape.

All the dealerships knew the Duys name and had been aware of Duys for three years and over, except Paarl Motors that had only just come into contact with Duys in the last three months.

The general consensus amongst the dealers was that brand name is not essential, as long as Toyota or their main supplier (e.g. Mitsubishi) approves the product, then it is up to the sales person to sell between those items. Marius, from Honeydew Toyota, was the exception here, stating that he felt brand awareness created by component suppliers, is important for customers in making their choice. Incidentally, Honeydew Toyota is a direct importer of various competitive Australian products, including Boccar, ARB and Haymen & Reese.

When asked if Duys have a large enough range for their requirements, generally the answer was no. Specific examples were given as to products that would have been considered from Duys, except that they were not made. These included Hi-Ace, Conquest and Corolla towbars, discontinued Landcruiser bars and bars for very newly

released vehicles. Particularly, the Mitsubishi dealer complained that there was a very limited range for their vehicles, with most of Duys' focus being on Toyota. Norman's Toyota is under the impression that Duys only really makes for the Hilux.

General consensus from the dealers was that sales material is important and that Duys does provide sufficient material for the items they sell.

The majority of the dealerships sell mostly mild steel products, of which they do buy a portion from Duys. They do, however, also sell stainless products but these are generally purchase from Maxe.

In Gauteng, B.T.M is the biggest competitor, with their edge being in the area of delivery. According to Secunda Toyota, B.T.M is also slightly cheaper than Duys. Towmaster are also a large competitor.

It seems apparent that there are differing opinions on the priority of price versus differentiation. There was fair consensus that as far as looks go, these products differ little from one supplier to another, but that styling is none the less important; especially for the customer buying an expensive vehicle. Towbars being less cosmetic are chosen more on price than a bull bar. It seems one cannot get away with charging much higher prices than the competition due to a lack of differentiation. If anything, one dealer points out, differentiation in speed of delivery is critical, as customers who buy a new vehicle do not want to wait for the vehicle. They chose the accessories and want to pick

up the next day, not wait two days because the bull bar has to come from Durban.

This raises a critical point. It came up in every case, that delivery was a major concern and was a main reason why many of the dealers were buying from companies other than Duys. It was stated categorically that Duys don't deliver fast enough since the closure of the Gauteng warehouse.

Another problem raised was that the dealers felt Duys did not carry a large enough range. Also, Duys product-lines are discontinued if they have little success for a couple of months, such that should there later be a demand (perhaps a small one) they are not able to supply. The implied problem was, that Duys is not a one-stop-shop for all the clients needs within the product range.

Honeydew Toyota who seems to be one of the bigger dealerships interviewed, imports product from Australia and had the criticism that Duys is not able to offer the prices that the Australians are offering so they rather go to the extra effort of importing as it adds far more to their bottom line. They stated that they would change to a local supplier if they could get the prices and a decent range. A large portion of their sales are claimed to be integrated bars which are high value added items.

When asked about the importance of incentives to get the sales people to push a particular product, the response was mixed. Some say they don't receive from other suppliers so they don't see it as an issue, others stated that, when the products are similar in price and quality, 'a carrot before the horse will move it in the desired



direction'. It was stated that incentives might just include basic recognition versus monetary rewards.

### 3.12.3 Specialised 4 X 4 Centres

Those interviewed include LA Sport, who are the TJM agents in South Africa and Neil Woolridge in Pietermaritzburg.

Contrary to the dealerships, these unanimously agreed that incentives were not important to them. Woolridge however noted that if anything, a discount that they can pass on when fitting for dealerships would be what they are looking for.

Woolridge has known Duys through Bernard (Production employee) for about 5 years. They state that branding is not as important as quality and that Duys had very good build quality.

They suggested that for Duys to increase their sales to similar outlets, Duys should concentrate on popular ranges. Ian Woolridge stated that, when it comes to a 'workhorse' type product, he recommends Duys but that due to Maxe's marketing to dealerships and their cosmetic value, Maxe is often requested by the dealerships that they fit for. He did say that he felt Maxe were little more than cosmetic though.

Quality for Woolridge is their key factor in deciding who to buy from as it allows them, as a professional 4 X 4 centre, to charge a premium.

Like the dealerships, Woolridge complained that Duys' range was not big enough. This is contrary to what LA

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Sport said, as they felt the range was sufficient for the vehicles they fitted.

Woolridge justified their comment saying that there is always a race to develop for new vehicles and Duys should be faster.

With regards to nudge bars, Woolridge said that Maxe has no opposition since he sees a nudge bar as somewhat of a cosmetic product. The dealers apparently have Maxe on file and customers see them there and ask for them.

With regards to sales material, Woolridge suggested that Duys should email pictures, which they would value more than brochures that age.

Woolridge said that there has been a big push towards stainless for cosmetic reasons but in the wraparound bull bar, black steel is still the seller. The same with tow bars. For nudge, side steps and rollbars, the market is for stainless.

Woolridge noted that, if as a fitment centre, they want business from the dealers they must include Maxe. However, the bulk of their bull bars and towbars come from Duys, B.T.M, Frontrunner and Towmaster. He noted that the dealers deal with Towmaster directly and that it would be good if their suppliers would respect their place as a middle man if they are to deal in their area.

Ian noted his opinion that in time to come bumper replacement is going to be the in thing as well as recessed winch mounts.

Expanding on what they saw as Duys' shortfalls, Ian noted that these would include quality control and service. Price is fair from Duys, he said and build quality is good, but supply quality is 'useless'. He noted that the people they talk with at D.C.M are not qualified or knowledgeable on the products. He noted these people as 'telesales'. He also claimed that they received orders late and that occasionally parts didn't fit / line up.

As a professional outlet, he claimed that for them, quality differentiation and quality of service were crucial over price and that their customers come to them willing to pay for the best.

La Sport, on the other hand, who have been dealing with Duys for over five years now, stated that Duys need to propagate their brand to assist the retailers in selling the product. LA Sport, see themselves as a competitor to Duys due to their TJM agency.

Like Woolridge, they see themselves as different to the ordinary dealership in that they are professionals and thus do not rely on sales information from the manufacturer for assistance in the selling process.

Of Duys' products, they mostly sell stainless nudge bars, but most of their sales come from their TJM integrated bull bar range.

They did say that consistency and service are important and that in that regard, Duys was doing well through their Gauteng rep.

### 3.13 The competition

There are many competing firms for each buyer to choose from. The main local players are B.T.M, Duys and Towmaster, supplying mild steel products. In stainless, Maxe has 90% of the market, Giflow has about 9% through their O.E supply and Duys has about 0.5%. It is evident that there are few dominant players and many other, regional and small-scale manufacturers, scrabbling for the balance. There are also some well-branded imports. Due to the fact that the buyers do not view the products as differentiated, buyers feel little to switch suppliers, ensuring that firms fight for market share, to maintain volumes sufficient to cover their high fixed costs. Further to this, the fact that the products differ relatively little from each other means that it is very easy to copy another firm's design. There are no real patents on design or product technology, making it a race to produce attractive products for new vehicles as they come out. Added to this, is the fact that the equipment is fairly standard engineering / metal working equipment, suggesting that on one hand, there are a mass of potential competitors out there that are not currently making bull bars and such accessories, but have the equipment to do so. On the other hand, should the market change sufficiently that Duys wants out of the accessories business, their equipment would be saleable or useable for other applications. Also in the existing player's favour, is the fact that there are fair learning curves to be experienced even by firms that make the manufacture of these components their sole mission.

## **INTERNATIONAL COMPETITION**

### **3.13.1 TJM Products**



TJM products are sold in South Africa through their agents, a company that has been in the 4 X 4 accessories trade for over 10 years, LA Sport. Located in Pretoria, they are ideally placed to supply the Gauteng market. They are however at the disadvantage of having to bring stock from the TJM factory which is located in Australia.

LA Sport tends to cater for the 4 X 4 enthusiast versus the general dealerships. Customers purchasing from LA sport and other TJM outlets around South Africa are likely to be those looking for professional 4 X 4 advice and a 'one stop' 4 X 4 shop.

"Various departments handle everything from vehicle sales, accessory sales, camping needs, vehicle fitment & development. Even a 4 X 4 academic track for 4 X 4 training with function center that caters for private and corporate functions, 4 X 4 fun team buildings, launches and outdoor shows. A visit to the LA Sport premises at 385 Voortrekkers Rd, Capital Park in Pretoria is more than just a 'Wild Experience' - It is the start of a 4 X 4 friendship" (Internet 4).

#### **a. TJM the Company**

TJM Products (Pty) Ltd claim to be Australia's leading designer, manufacturer and distributor of four wheel

drive, commercial and passenger vehicle equipment. Founded in 1973 and located in Brisbane, Australia, the company employs about 250 people. TJM products are distributed in Australia through 45 outlets consisting of corporate distributors and company-owned stores and internationally through an authorised distributor network.

TJM maintains an exceptional website with online catalogues and contact details for their outlets worldwide.

TJM push their products world wide, with their focus being on the 4 X 4 speciality clientele. They brand themselves as such, using events like the Camel Trophy and other off-road events, to push the perception that they are a genuine, rough and rugged, off-road components supplier.

#### **b. TJM R & D**

"Being fully committed to road safety, TJM has invested heavily in an extensive research and testing programme to ensure TJM frontal protection bars do not have detrimental effects on the air bag triggering systems of modern vehicles.

This far reaching programme has led to TJM establishing its own test facilities. In conjunction with independent external organisations, the latest in technology, including computer simulation, and static and dynamic crash testing methods are used to validate air bag compatibility.

TJM is now well recognised as a leading manufacturer of Air Bag Compatible Bull Bars for both Australian and overseas markets" (Internet 5).

#### c. Quality assurance

TJM are an ISO9001 certified company and are in the process of implementing QS9000.

#### d. Client base

Customer base ranges from private users to government departments, fleet operators, mining companies and car manufacturers - both in Australia and overseas. Through their large network of distributors and agents, TJM claims to be a customer focused organisation. A call to a TJM agent distributing the products in Kenya, a Mr. Rob Collinge, however, highlighted some of the problems with being so far removed from the client. Mr. Collinge claimed that as a company selling upwards of US\$ 30,000 of TJM products per month, he was not one of their larger buyers. He expressed that the distance between him and TJM as supplier as well as the fact that he was not one of their large clients left TJM wanting in the department of service. Mr. Collinge ended the conversation saying that if he could find an equivalent product at an equivalent price from an alternative source, he would jump at the chance to change supplier.

#### e. The future

Regardless of Mr. Collinge's sentiments, with over 25 years experience, TJM seem to be continually expanding as one of the global leaders. In South Africa, their products will likely only remain as a threat in the 4 X 4

enthusiast category due to their inability to meet the delivery requirements of the general motor dealerships.

### 3.13.2 ARB



ARB also claim to be "Australia's largest and industry leading manufacturer and distributor of quality, 4WD vehicle accessories, with distribution outlets in most countries around the world" (Internet 6).

ARB has also been around for over 25 years. Their philosophy is based on that of the founder, Anthony Ronald Brown: Properly engineered, reliable, good quality accessories that represent excellent value for money.

ARB also have a first class website exhibiting online catalogues of product and contact details to find their nearest distributors or to order full colour hard copy catalogues (Internet 6).

#### **a. Distribution and warehousing**

ARB keeps over AU\$9M of stock on hand in their warehouse in Melbourne, Australia. From there, they distribute to their markets worldwide. ARB's distribution outlets around the world include Japan, the Middle East, Africa, U.S.A and Europe. In 1991, their success in the U.S led to the opening of a sales & distribution centre in Seattle, Washington, from where the North, Central & South American markets are serviced (Internet 6).



Figure 3.1 ARB warehousing



### **b. Equipment and technology**

ARB's plant makes use of cutting edge equipment and technology, allowing for essential R&D. All the latest CAD, CAM & CNC sheet fabrication, machining and laser cutting equipment are utilized in this regard.

Figure 3.2 ARB factory

ARB designs necessitate heavy investment in laser technology. They have invested in four AU\$0.5M and one AU\$1M lasers. They maintain that this is to meet the needs of their 'intricate & complex' designs.



### c. Products

ARB products are made up of quite a large range of various 4 X 4 products which include: bull bars, side rails, steps, rear step tow bars and other vehicle protection equipment, a comprehensive selection of suspension systems, winches, lights, an ARB canopy range, diff locks, snorkels, fuel tanks and seats.

As can be noted from the list, ARB places a significant amount of emphasis on products other than those in a competitive line to Duys.

ARB has also been successful in securing distribution rights of a number of associated, complementary, quality products from around the world:

- IPF lights from Japan
- Warn winches & Hi Lift jacks from the USA
- AVM hubs from Brazil and
- Paratus Seats, Long Ranger fuel tanks & TowMaster tow bars from Australia.

By grouping these products together, it provides some advantage in being a one stop export supplier to agencies around the world.

ARB also places a large importance on advertising from headoffice. They, like TJM, associate themselves with a lifestyle image and make large effort to position themselves as a supplier of authentic off-road, 'work-horse' equipment.

#### d. ARB customer base

ARB aim at various segments of the market, while focusing on the traditional four wheel drive enthusiast customers. ARB also supplies product to original equipment manufacturers in Australia, including Nissan & Toyota. ARB also supply mining companies and government departments, commercial fleet owners, the Australian Defence Force and four wheel drive tour operators.

#### LOCAL COMPETITORS

##### 3.13.3 MAXE

"Back in 1997, MAXE Stainless Steel produced the first stainless steel bull bar in South Africa, for a Mitsubishi Pajero. It did not take long before 4 X 4 vehicle owners, in general, recognized the strength and good looks offered by stainless steel, and the demand for MAXE Bull Bars rapidly grew.

MAXE'S ability to produce quality products in attractive, innovative designs has seen it become the dominant manufacturer of stainless steel vehicle accessories in South Africa - approved by Toyota, Nissan, Delta, Daimler Chrysler and many others.

Maxe now produce over 180 products for Toyota, Nissan SA, Daimler Chrysler, Delta Motor Corporation, Ford, Mazda, Landrover, Honda SA and many other imported vehicle types" (Internet 7).

Such a large range is a strength that Maxe have. Another is their ability to get products very speedily to the market, as and when new vehicles are launched by the different motor holding companies.

"The product is made from 304 Marine Grade Stainless Steel. It is polished to a mirror finish and will not corrode, tarnish or rust in anyway. All bars come supplied with necessary, nuts, bolts, brackets, fittings and instructions for easy fitting" (Internet 8).

Maxe are based in New Germany, Kwa-Zulu Natal and distribute to their reps and agents by overnight delivery, on receipt of order.

Maxe provide their reps with full colour brochures, continually up dated selling material and offer various incentives to the dealerships for the sale of any Maxe product. Their latest 'above board' incentive scheme, awards a lucky-draw ticket, for every Maxe product sold, with the winner of the draw being awarded an overseas holiday for two.

Maxe also has a website, showing their products online.

Of all the local players, Maxe has really managed build brand equity in the stainless line, such that they are the market leader and are recognised as such by consumers and dealerships alike.

Recently, Maxe has been making inroads into the O.E business and there is strong evidence that they are looking for volume contract business. Although their strategy has differed from Duys', in that their focus has been entirely on stainless steel products and up until recently, on the aftermarket business, they are now making headway with Toyota in getting contracts to supply various parts as a first tier supplier. Although

difficult to prove, it is strongly believed that the decision-maker at Toyota's Prospecton plant is involved in a relationship with a key individual at Maxe. There is also evidence that 'gifts' have been given by Maxe, such as free use of a ski boat and other such 'benefits'. It would be careless if any strategy by Duys ignored such strong and threatening relationships. Although Duys has addressed this issue with higher levels of management at Toyota, nothing has currently been done about the situation, despite promises from Toyota's side. In some cases, where Maxe product has already gone through approval from Toyota Japan and it seems that Duys' designs have been 'lost / stalled' in the system, it would seem that such remedies may in any case be too late.

#### 3.14 Resources

As a diversified group, it is both a strength and a weakness that the various companies within the Duys group share many of their resources. It allows more than one firm to add to each department's contribution, however, the flow of work is not necessarily ideal for any one particular company.

What follows, are diagrams showing the different production lines utilised by the D.A.M:

Figure 3.3 Carbon steel / bent tube production line

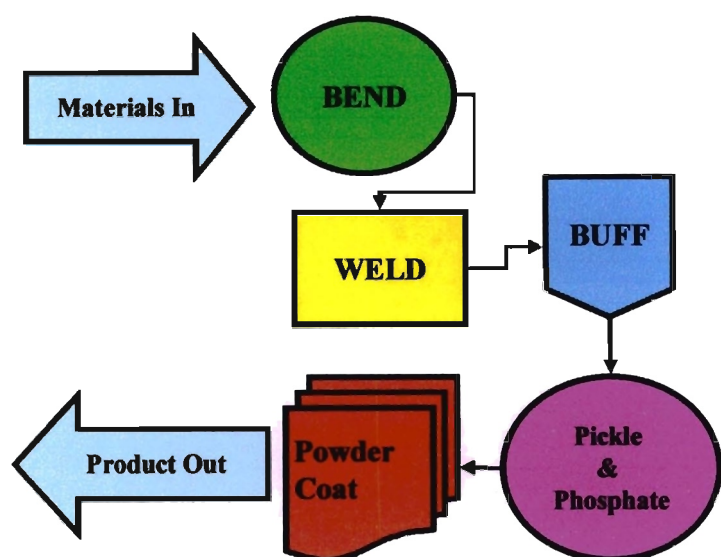


Figure 3.4 Stainless steel components' production line

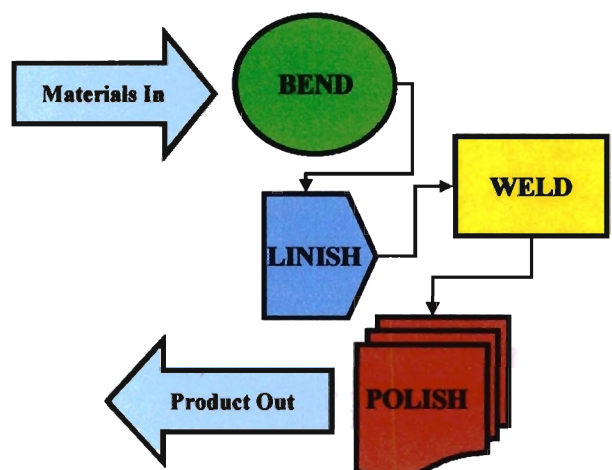
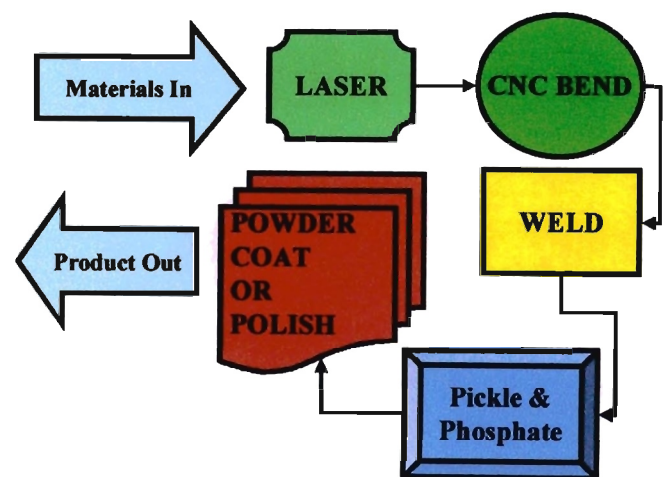


Figure 3.5 4 X 4 integrated components' production line



Some problems due to sharing different workstations include, increased costs, time to move product and damages to the product that occur along the way. An example would be the distance between the laser and CNC.

It is has, however, been remarked on in the past, that Duys makes exceptional use out of the space they have available. The poor layout is thus due to space constraints and not a lack of awareness of the problem.

A brief diagnosis of the equipment, finds that much of it is antiquated. If one were to rate the equipment against an industry standard or benchmark, with the top of the range equipment scoring a 10/10, then D.A.M's bending equipment will score a dismal 4/10. Its competitors, Giflow and Maxe on the other hand, would have an 8/10 for their more up-to-date equipment. Duys is currently considering spending R3.80M on the latest pipe bending equipment that will allow them to do state-of-the-art bends with minimal set-up time required and drastically reduced chance of operator error. This purchase will make Duys the technology leaders in this area.

At the buffing stage, management notes that their problem has often been a case of poor pipe in, poor pipe out. Their quality will thus dramatically increase with the new bending equipment. Powder coating which follows, is, however, already top class.

With stainless, Duys polishes by hand, while the competition electro-polish. Hand polishing is more time consuming, labour intensive and more costly. An electro-polisher will cost in the region of R0.5M.

CNC Bending used in the integrated-bumper line, has very slow set-up. This is costly and inhibits moving from one product to another with rapid change. Compared to the competition (TJM), Duys would score a 2/10 with TJM scoring about an 8 or 9. A R1.4M purchase of up to date press brake equipment will drastically improve this line and make the company more competitive against imports.

The laser facilities are on a par with much of the world, however the laser portion of the costs is high, as jobs in the laser section are not grouped properly together for best capacity utilisation, by management.

Pickle and phosphate. This is necessary for product that is not going to rust. Most of the competition in the carbon / mild steel components business do not do this. It adds to the cost, but Duys has made a decision to continue to supply its products with this value added for purposes of protecting their standing as a high quality supplier.

### 3.15 Technical people

Management believes that D.C.M and thus D.A.M operate as lean organisations. As discussed, the employees at Duys Components / D.A.M work in teams and are encouraged to grow and improve themselves through learning and training. Considering the current equipment, the staff are exceptional at getting the best out of their equipment in many respects. The new bending equipment will increase their ability but will also demand higher skills - skills which top management feel are lacking. There is an absence of employees that are capable of filling more demanding and skilled positions. Jan Visagie, Managing Director at D.C.M, indicated that they



would probably be wise to look outside to find an operator for the new bender, should the purchase go ahead.

The staff operating the laser equipment are very capable and are learning the systems well, considering it is a fairly new department.

Much emphasis has been put on training and building the skills base amongst existing employees. The team related work division was a massive attempt at growing this. Russell Escreet, the newly hired manager for D.A.M relates that he has never witnessed an M.D that spends so much time on the shop floor encouraging and assisting in the training of the workforce. Yet, Gilbert Jasson, production manager at D.C.M notes that 60 to 70% of the workforce are not accepting of the training. It is the staff at management level and at the very bottom that have taken well to the training, middle skilled workers are resistant to change and thus resist the encouragement to grow and improve, he says. The environment for learning is created by management but, this large portion are not taking the opportunity.

D.C.M has a policy where they will pay for an employee's education, as long as that employee passes. The individuals will thus pay for any subject that is failed. Massive amounts of time are spent on empowering and training.

Employee-management relations are fairly good. Prior to the last shop-steward elections, one would have classified them as excellent. However, with the last elections, the two new stewards made some heavy and empty

promises that they could not possibly have delivered on and this has lead to some tension, especially from the shop steward's side. This has tended to lessen the morale amongst the workers. It is soon to be election time again and the chances are poor that these stewards will be re-elected.

Pay is not currently linked to productivity, however, various ways of profit-sharing are currently being looked at. Employees are, however, recognised for effort, period of service and attendance. Generally by public praise but for attendance, an annual bonus is used to recognise those that have not been absent. (Done on a sliding scale) D.C.M labour has a current absenteeism rate of 3%. This is very low compared to industry norms. Average length of service is very high.

### 3.16 Management and leadership

Management is exceptionally committed. They are dedicated to a continual learning environment and there is a definite culture of 'making things happen'. Perhaps a weakness is the automatic acceptance of orders without awareness of exactly what it will take to fulfil them. However, this is characteristic of an eager, growing and learning organisation. There is, however, a lack of adequate planning for the introduction of new products / business which inevitably requires process reengineering and an understanding of available resources and their capabilities.

Management has levels 1 to 4 functioning and organised very well with regards to authority and responsibilities. There is weakness however at supervisor level (level 2), in that a majority of these individuals are resistant to

the ongoing culture of learning / continuous improvement and yet management seem to be lenient on their shortcomings.

With regards to employing of individuals for various positions, management relates a failure in formal methods of interviewing, screening and evaluating, particularly for more senior positions. They have found far more success with employing people who are previously known to the organisation, either through social circles, through competing organisations, customers or other firms in the general industry. D.C.M does not have its own human resource office, rather relying on the corporate head office's H.R department.

Creativity is fostered throughout the division with fantastic examples of level 4 employees (factory floor workers) giving presentations in the automotive cluster meetings held with other firms in the industry as well as D.T.I. These presentations used visual media and exhibited ways in which these workers had improved their productivity through the implementation of suggestions from within their own teams.

Figure 3.6 Workers presenting at automotive cluster meeting



In theory, D.C.M is an equal opportunity employer. In practice, they are probably the only organisation in the automotive cluster that it has been suggested to that they need more whites. There is notably an uneven majority of Indians, particularly at middle management level.

Duys has an affirmative action programme, however, it is noted by management that the individuals identified for fast tracking are not performing and growing fast enough.

In general, when it comes to employing, management would first attempt to employ from within.

There are no formal career planning systems in place and promotion is done as and when there is a need that a lower graded individual might move up to fill.

The wage and salary administration system is inefficient and is in need of an upgrade. It too often renders errors.

There are, however, well-established grievance and disciplinary systems and procedures in place.

### 3.17 Brand equity

Having been around for a couple decades now, the Duys name is known in engineering circles for the integrity that its people have in dealing with their customers and suppliers as well as the workforce. The Duys name is well respected and the companies in the group maintain excellent relationships with their stakeholders. This all said, however, Duys has never actively pursued a brand strategy other than through naturally developing

their reputation. Products are not sold with any special branded packaging nor do clients receive anything that pushes the name, such as a cap or t-shirt. The product itself is without label.

### 3.18 Current strategy

Although D.A.M does not have a formal written strategy, management has compiled a 'marketing plan' that outlines their basic strategic vision.

The aim is to manage stable growth through a resource holding approach and by focused but outsourced distribution.

The plan is to build up a stock holding in the fast moving lines and to be able to deliver within four days on other items. This has not currently taken shape due to lack of storage space but the problem is being resolved as the company builds a store on site.

The next step in the plan is to build the product range. Something that has been happening very slowly, as the process of developing new product is not well polished and defined. The process is inefficient, ineffective and it takes far too long.

With regards to pricing, Duys aims to provide product of superior quality in all segments and attempts to differentiate itself such that it can make larger margins than the competition. Initially the plan was to be aggressive with pricing but it was felt that this did not have a sufficiently positive effect on sales, so the 'strategy' was refocused. This same pricing strategy has

been chosen for all segments, with the 4 x 4 segment making the largest margins.

Pertaining to promotion of products, Duys initially started by aiming to reach the public through advertising in car magazines (dropped because of cost and low reward), motor shows (have successfully built more brand awareness) and through exhibitions. Exhibitions have been successful in that they have resulted in good contacts but they are expensive. The current promotion strategy excludes these exhibitions and the feeling is that focus must be given to developing current contacts into clients.

Effort has now been put into developing Duys Component brochures and setting up display stands at selected outlets; particularly the 4 X 4 centers.

Management had a great plan to accessorise dealership's demo vehicles so that when these were sold, they would be sold with Duys product fitted and Duys would then be paid. This idea involves consignment stock, was considered too expensive to roll out countrywide and has recently been abandoned, as the company was not controlling the stock to the satisfaction of management. Demo vehicles would be sold and Duys was not being notified on time. The plan is still felt to have merit but is not being utilised anymore.

Lastly, with regards to promotion, Duys has two other initiatives. The first, is to sponsor motor teams. This is to create awareness in the 4 X 4 market. Secondly, there was a plan to buy back standard carbon steel products fitted at O.E level, for a R200.00 discount to

the dealership if the dealer upgraded the customer to a stainless product. This has not worked but is still on the table. It is thought that the idea was not marketed well enough.

Distribution strategy. The plan is to outsource distribution and sales. Actual delivery will go to 'Time Freight' and sales will be done through commissioned agents who can be selling other products to the same customers; preferably not competitive products. D.A.M had a company with reps in the field that it was interested in, but they started to distribute Maxe products instead. The search continues for suitable agents.

Duys believes that storage in the various city centers is not necessary as it costs as much to deliver direct to a client as it does to deliver to a warehouse, so going via a warehouse will only increase the cost. Management also believe that delivery by the following day will be possible when they are holding stock in Durban and that this timing is sufficient. The belief is that the sales people at dealership level know what vehicles they are selling in advance and need to be pushed to be more proactive in giving orders immediately so that Duys has time to get the product to them in time for fitment.

### 3.19 Summary

This chapter told somewhat of a story; where the Duys Group comes from and how Duys Aftermarket Components (D.A.M) was birthed from the situation where Toyota, as Duys Component Manufacturers' (D.C.M) main client, announced that they would no longer be purchasing bull bars and other similar products from Duys. These, they

stated, would no longer be fitted by their factory but rather at aftermarket level. This scenario left Duys to decide how they would survive in a completely different environment. The chapter discussed Duys' history with the aftermarket, gathered information on customers and competitors alike and unbundled a massive amount of facts on the company itself.

Now, the task is to take all these facts and disseminate them for analysis and the development of some basic direction for the company. This follows in chapter four.



## **Chapter Four**

### **Analysing and developing suitable grand strategies for the company**

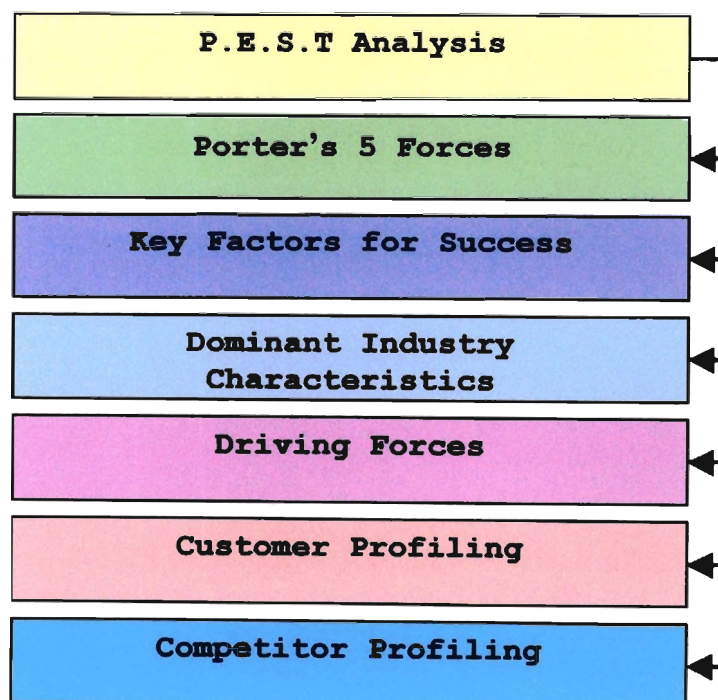
#### **4.1 Introduction**

This chapter involves an analysis of the data gathered in chapter three. There are four main sections in chapter four:

- External analysis
- Internal analysis
- Development of strategic options and
- Assessment of suitability

It can be noted that the flow follows the same flow of chapter two, as this chapter uses the information from chapter three and applies it to the theory discussed in chapter 2. At the beginning of each of the main sections listed above, is a flow diagram to outline the flow of the analysis and the major headings to be discussed.

#### **EXTERNAL ANALYSIS**



## 4.2 P.E.S.T analysis

What follows, is a physical P.E.S.T analysis that will give a basic understanding of the environment that D.A.M operates within.

### 4.2.1 Political environment

Out of the transformation and growth discussed in the previous chapter, Duys Aftermarket Components (D.A.M) was formed, in Kwa-Zulu Natal, South Africa, in 2003.

Emerging from the legacy of Apartheid, South Africa has an environment different to, but not entirely unlike other developing countries. South Africa has a massive skills shortage. The previously uneducated population are battling to catch up, in a market where unemployment is rife. The previously unbalanced power between employer and employee resulted in extortion, under Apartheid. Thus, the 'new' government established stringent labour legislation that affects the ease with which businesses hire and fire and the quality of support that employees are given whilst in employ.

Further to this, the previous manipulation and deprivation of rights to own property and businesses and to be employed in top positions, has lead to the establishment of empowerment legislation, designed to fast track the redistribution of wealth and such positions in society. New legislation in this regard will impact on who a company may buy from, who it has to employ, the amount of money it must budget for training and even who it shares management and ownership with. This is particularly the case in industries where government is a client, or where the clientele is in a

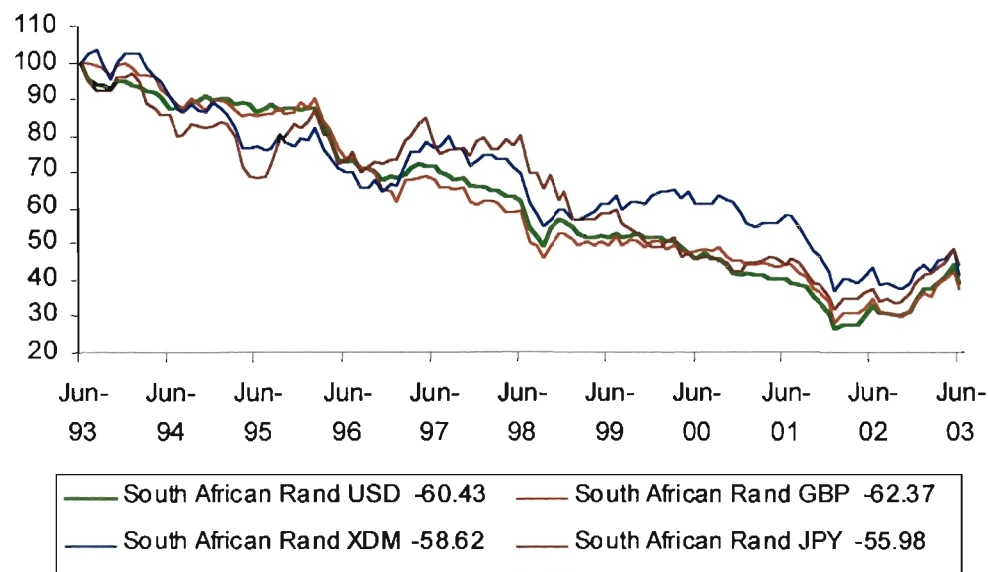
position where it has to maintain a certain relationship with government, in return for perhaps, levels of protection or other such benefits. The large motor companies may very well fall into that category and so the empowerment issue should be given due attention.

Other legislation that directly affects the automotive and accessories industry is that which prevents accessories from covering a vehicle's lights. Viewing the trends world wide, it is also a potential concern that bull bars have been banned in much of Europe due to the apparent fact that an individual hit by a vehicle without a bull bar will be less injured than one hit by a vehicle brandishing such an accessory (Internet 9). As airbags become more entrenched as norms, one may well see legislation demanding that bull bars be tested for airbag compatibility.

#### 4.2.2 Economic environment

From an economic viewpoint, South Africa has steadily had a depreciating currency. However, of late the Rand has made massive gains on the Dollar and other world currencies, with obvious implications on the country's current account. A major issue for business, is the instability of the currency and hence the inability to forward plan with surety.

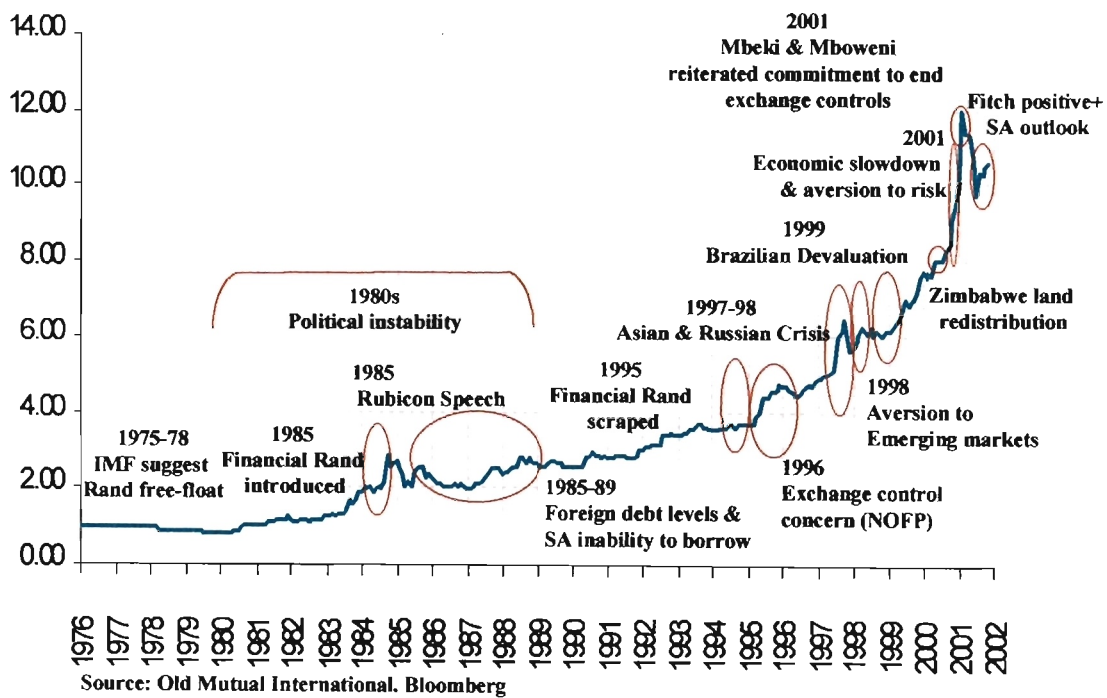
Figure 4.1 Rand depreciation over last 10 years



Source: Standard & Poors Micropal bid-to-bid, 10 years to 9 June 2003

An interesting graph shows the Rand's depreciation against the dollar, showing some of the alleged reasons for the depreciation. This shows that sentiment, rather than measurable factors, may often be the cause. This is a negative for companies trying to predict the stability of the future.

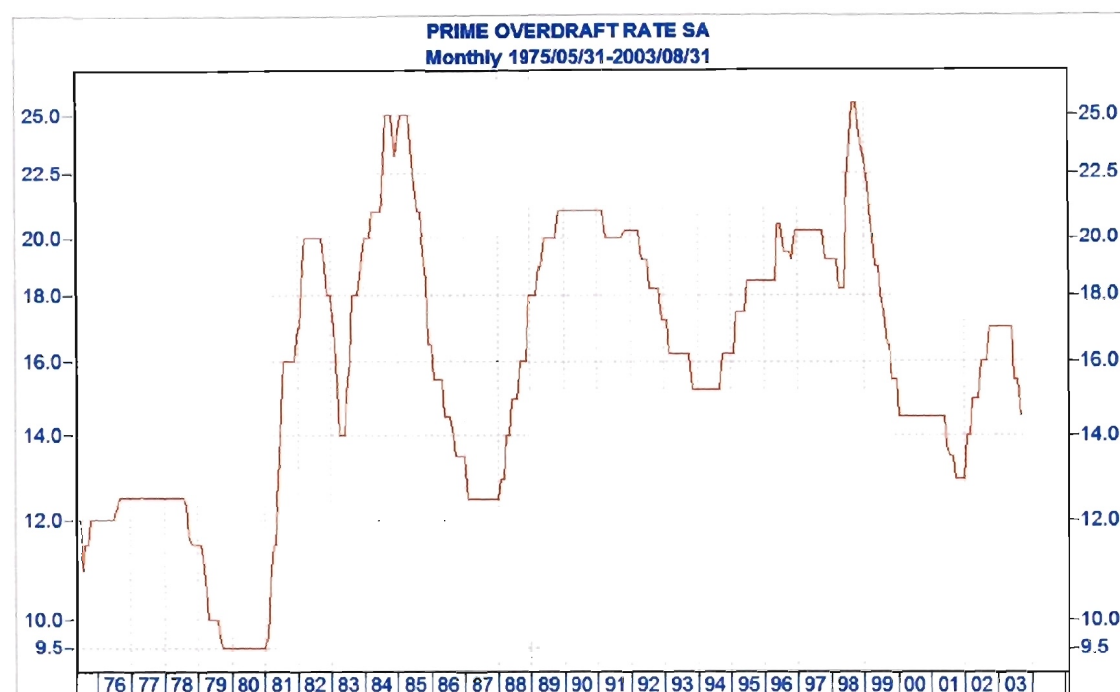
Figure 4.2 Rand against the Dollar



Other interesting economic indicators include:

- Interest Rates

Figure 4.3 Prime rates in South Africa

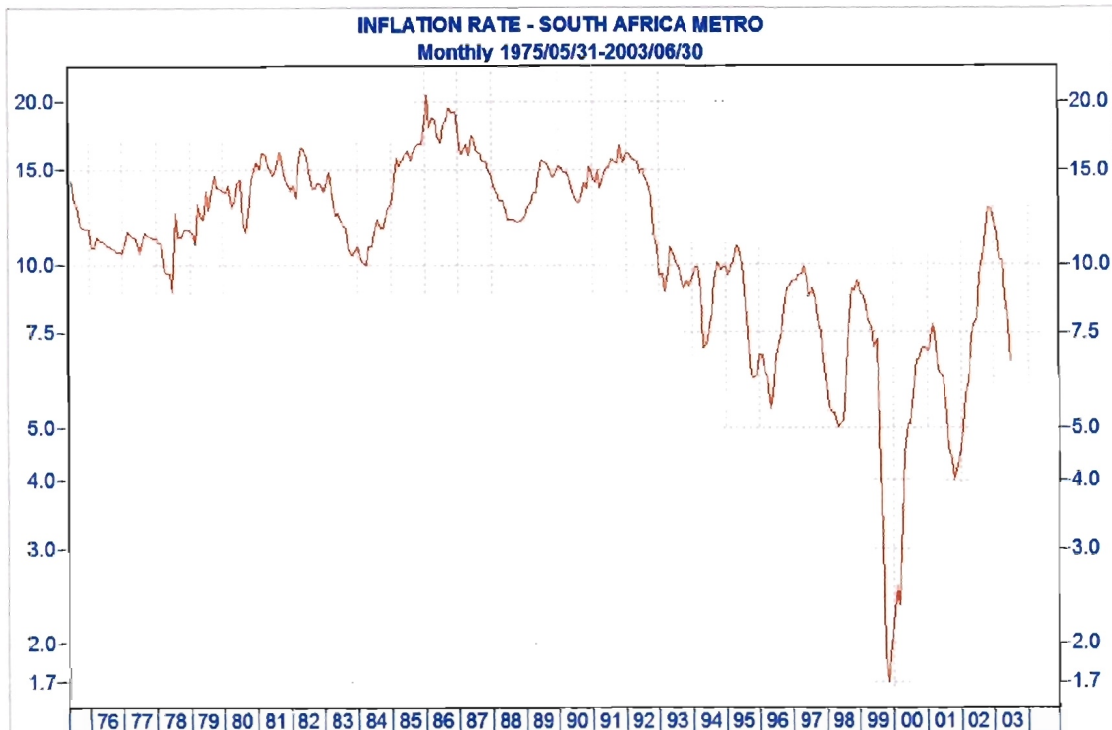


Source: I-Net Bridge (2003)

As can be seen, interest rates are on their way down, a positive for the South African companies that are financed to a large degree by debt. Lower interest rates also tend to lead to growth and greater spending which is good for all firms. The rate is, however, a lot higher than in many developed nations.

- Inflation

Figure 4.4 CPIX graph for South Africa



Source: I-Net Bridge

Inflation figures seem to have bounced around to a large degree, with a general upward trend from 1999 to 2002 and recently a slight improvement. This is important, as an increase in input-costs, results in tighter margins prior to obtaining a price increase from clients - if they will allow it.

Under the Uruguay round of agreements, members of the WTO agreed to decrease import barriers and this no doubt has effects on the ability of South Africa to compete in other countries and visa versa. Export incentives like the MIDP programme, however, are still used to give advantage to certain industries.

#### 4.2.3 Socio-cultural

South Africa is an extremely multicultural and multi-lingual country. Different cultures play a role in what

is found to be aesthetically appealing. This is very important in an industry like the stainless steel accessories business, which essentially sells automotive fashion accessories. On the manufacturing side, an issue is that an estimated one third of the population is infected with HIV/AIDS and this no doubt creates massive economic problems for the country and industry as a whole. In an industry where much of the expertise and knowledge is 'head knowledge', this is a major problem. If the 'jigs' (a piece of equipment that allows the repetitive manufacture of additional items to the same spec / design / shape as each other) do not cater for any operator, then it becomes a problem if that line's operator is off ill as there will be quality / output faults.

Social reference groups, such as employer associations and unions are a major way of life in the metal industry, as is evident in the almost annual wage and terms of employment negotiations that take place at national level.

#### 4.2.4 Technology

Although South Africa is a country experiencing massive change, it can be noted that in the accessory business, in which D.A.M competes, technological change in terms of equipment capabilities is not very large, nor very rapid. Where change is rapid, is in new vehicles coming onto the market and it is obvious that this requires that companies like D.A.M be fast in getting their products from design to the market. In this light, R & D is exceptionally important in staying ahead of the competition. The products are largely cosmetic in nature and hence, there is an onus on R & D to provide



attractive accessories that lead in the fashion sense of the word. It is important that the market leader be the fashion leader - this means being there first.

#### 4.3 Porter's five forces analysis

It is important to note that a five forces analysis is done as a snapshot and works best in a stable environment. Hence, it should be re-looked at and updated as the industry and environment change.

##### 4.3.1 Supplier Power (A strong force)

- There are a few strong suppliers, well informed and close to one another.
- Steel is a commodity like item yet it is controlled by near monopolies.
- Although switching costs are basically non-existent, the benefits, price-wise, to be derived from switching, are also bordering on non-existent.
- There is evidence of bulk steel suppliers forward integrating, suggesting it to be a threat in the future.
- Backward integration, by Duys, whilst possible, is highly unlikely due to the high costs this would involve.
- While there are substitutes in the form of imported material, the unstable exchange rate and current import duties make it a difficult option. However, it may be one to be further explored, especially considering the currently strong South African Rand.
- D.C.M is a relatively small client with low bargaining power. That said, Duys' business is obviously desirable and even important to its steel suppliers, but not it seems, to the extent that it can muscle exceptional prices.

#### 4.3.2 Buyer Power (A strong force)

- Although there are many buyers, the majority are linked through umbrella organisations like Toyota P & A. These have high collective bargaining power. And even aim to force exclusivity of certain designs and products.
- There are many competing firms for customers to choose from.
- Products are not viewed as differentiated, by customers and thus, they are very price sensitive. Those that do view the products as differentiated will tend to be the 4 X 4 fitment centers and these will be less price sensitive, but will demand quality in return.
- There is evidence of backward integration, suggesting powerful buyers.
- The products have low strategic importance for most of the clients as they are fashion accessories. Again, this is different to the 4 X 4 centers that sell the products as actual 'tools'.

#### 4.3.3 Threat from new entrants (A medium risk)

- Government encourages competition in South Africa suggesting that legislation and official policy would be in favour of new firms setting up to compete with the already existing ones.
- Patents and proprietary knowledge are almost non-existent as firms basically copy one-another's designs with only slight, if any, modification at times.
- Equipment is general, with low specificity, suggesting that if a firm decided to enter and attempt to compete in this industry, they could be almost guaranteed that if they failed, their equipment would either be saleable or utilisable for another application.

- Economies of scale are fairly important, but far less so than on the O.E side, suggesting that new entrants could compete with fairly low volumes. Obviously though, those with larger market share will be able to utilise their volumes to benefit from economies of scale and keep prices competitive. Especially since it seems the market is very price sensitive.
- As identified, customers are price sensitive, making them lack brand loyalty in many cases. A plus for new entrant candidates.
- Existing firms often have relationships with key people in the umbrella organisations on the buying side, making it difficult for new entrants to get in. Evidence of this is the Maxe relationship with the Toyota P & A approver.
- With regards to distribution channels, it is obvious from the research, that sales people on the ground is key to success and this means that a new firm would have to establish a network of agents and / or reps which is not an easy task.

#### 4.3.4 Threat from substitute products (A low risk)

Substitutes are basically non-existent. There are plastic moulded options but these are generally prohibitively expensive.

#### 4.3.5 Levels of existing rivalry (A high threat)

D.A.M is attempting to compete in three main market segments:

- The carbon steel / tubular market
- The stainless steel market and
- The 4 X 4 / Off-Road specialist market

As such, their competitors differ depending on the segment.

In the carbon steel segment, their competitors include:

- B.T.M
- Possibly in the future, Giflow
- Bosal
- Buffalo bar

In the stainless steel segment, Maxe has the lions share, with 90 odd percent of the market and Giflow the rest as an O.E supplier. With the structural changes happening at O.E level, however, Giflow should not be discounted as a negligible threat in the aftermarket.

In the 4 X 4 speciality line, the competitors are mainly imports:

- Boccar
- TJM and
- ARB

There is also one local company called NudgM.

- In the stainless and 4 X 4 segments, the players place a large emphasis on branding, whereas the carbon steel side is less differentiated in this manner.
- In all segments, the main players dominate the distribution channels by having people on the ground in the form of reps. There are a few dominant players in each and smaller operations in the wings hustling for market share from them.

- In the aftermarket business is general, players that want to supply nation or worldwide, have high fixed costs and need to have a level of volume to remain profitable. This raises the level of competition as firms fight to achieve and supersede those levels.
- Although exiting such businesses is an option, as is realigning, the effort involved in this as well as the cost is relatively high, adding to the pressure to make the businesses work.
- Particularly in the strongly branded segments, the level of branding increases the intensity of competition.
- Missions and objectives are seemingly becoming more similar as time progresses, with companies like Giflow a serious future threat in the aftermarket as dealers challenge the status quo as far as distribution channels are concerned. Maxe, who already circumvent the standard distribution channels, are also moving towards a strategy more similar to that of Duys as they start to pursue volume type and O.E type contracts.
- With change in the market and no clear indication that the market is growing, it seems evident that the competitive environment is one that can be termed intense.

#### 4.4 Key factors for success (K.F.S)

What it takes to be successful in one segment of the market does not necessarily hold true for other segments. For that reason, the following analysis utilises the preceding research to determine what is critical to

satisfy the different customers and further, what is crucial to a basic level of competitive performance. Rated for importance on a scale of 1 to 10, 10 being exceptionally important and 0 being not important at all, the following are proposed as the critical or key factors for success in the industry in which D.A.M partakes: (see over page)

Table 4.1 Weighted and segmented key factors for success

K.F.S		Off-road Segment		Carbon steel segment	Stainless steel segment
		Serious Off-roaders	NudgeM clientele		
Price		2	10	10	5
Aesthetic Quality (Fashion)		6-7	10	5	10
Technological quality		10	2	8	2
Branding		8	1	4	10
Backup Service		8		5	8
Incentives	Above Board	2		9	9
	Below Board	2		8	8
Range		5		8	10
Short run economies of scale		9		8	2
Delivery		6		10	10
		Export off-road equipment	Local off-road equipment		
R & D	Prototype development	8	8	8	10
	Features	8	9	8	8
	Creativity	8	9	2	3
Prototype to Market		9	9	8	10

#### 4.5 Dominant industry characteristics

The industry can be characterised as one that is highly competitive. High fixed costs and a need to achieve economies of scale, even in small to medium size runs, is important. Buyers and suppliers are strong and the players in this industry are able to exert little influence over either.

Differentiation of actual products, is generally low, with the main differences between competitors, coming from the speed with which they get from prototype to market after a new vehicle is launched and the actual range that is available.

It is an industry in which delivery plays a major role. Buyers are not prepared to hold stock, yet those in the fitment center and dealership segments demand almost immediate delivery on placing of order.

It is also an industry in which incentives play a role and there is evidence that this is an issue, with regards to above and below board incentivising.

Lastly, the industry is characterised by complicated and in many aspects, bureaucratic distribution channels. In this regard, it is becoming a characteristic that there are players that are challenging these channels and potentially taking market share and making above industry average profit by doing so.

#### 4.6 Driving forces

It is the stakeholders in the industry that are challenging the standard / accepted channels that will



likely shape the channels of tomorrow's components industry.

Formerly focused O.E manufacturers entering the aftermarket segment will undoubtedly heat up the levels of competition and shift the balance of market share.

The changing structure of the motor corporations like Toyota, that no longer fit these parts at first tier level, will change the dynamics of the industry and most likely add to the shaping of future distribution channels.

#### 4.7 Distribution channels

The distribution channels are largely determined by the umbrella organisations. There has, however, been a major shift in how products are bought and to whom the manufacturers must sell. The changing structure at O.E level has had major repercussions for these channels and so it is important that cognisance be taken of how these are laid out and how the company might develop advantage by innovatively dealing with these structures. It is obvious that Maxe has become the strong company that it is, by doing exactly that, circumventing the channels that everyone else adhered to and going direct to the dealers and marketing their products there.

On the following page, these channels are presented and elaborated on, as to how they have recently changed.

Figure 4.5 Distribution channels

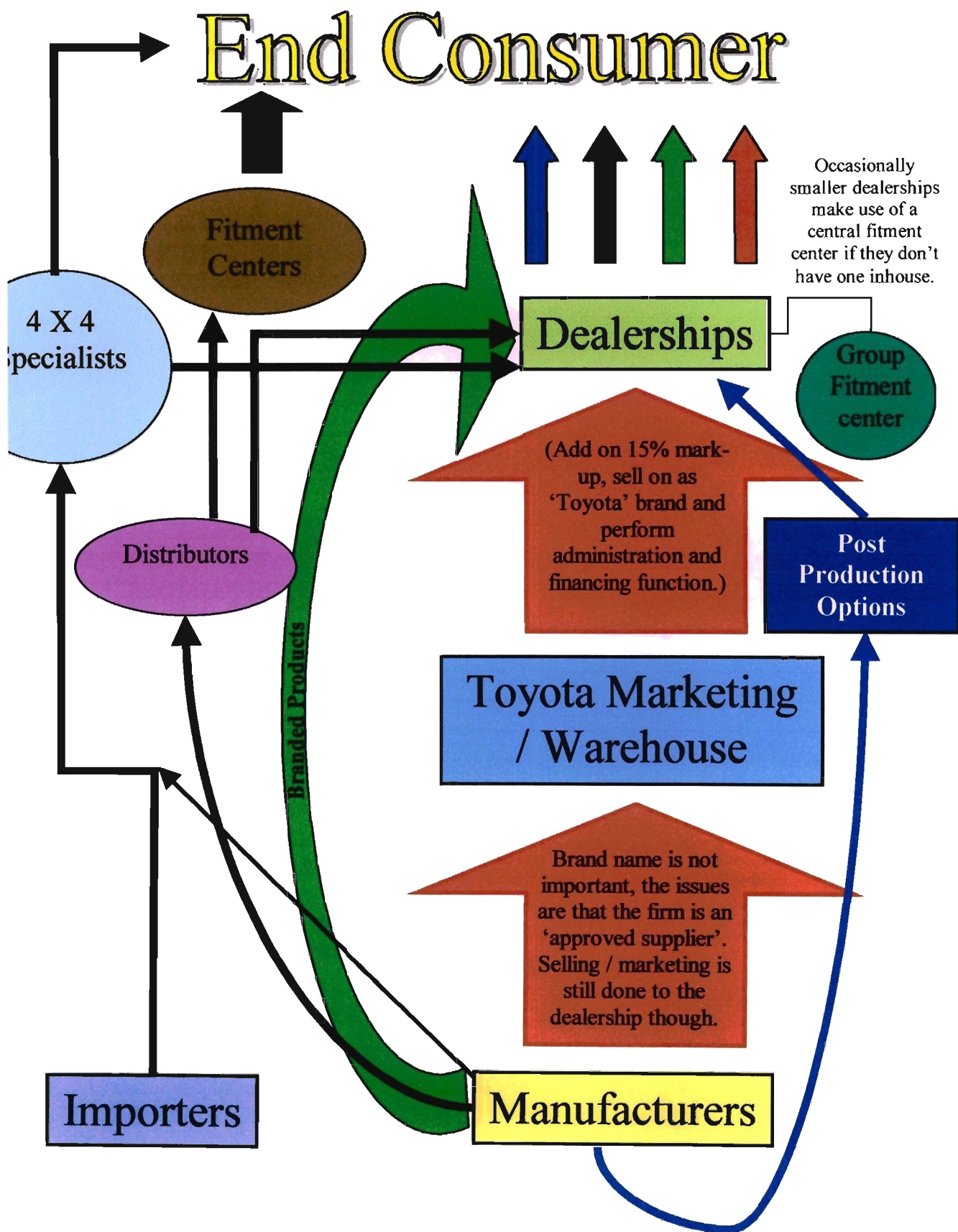
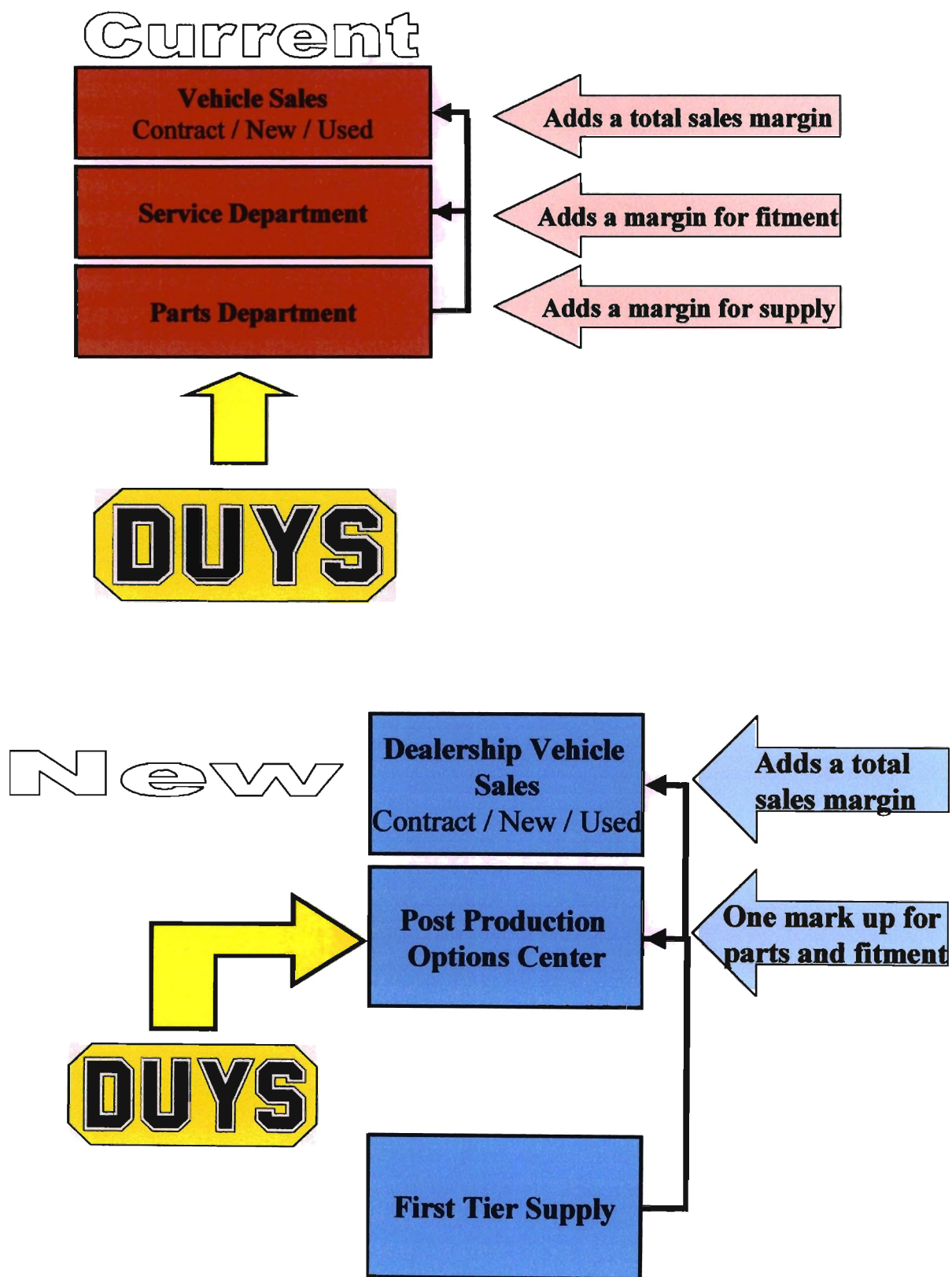


Figure 4.6 Current and new distribution channels for Toyota



#### 4.8 Customer analysis

The market can be segmented into three main segments. These can be defined as that for:

- Carbon steel accessories
- Stainless steel accessories
- 4 X 4 accessories

The dealerships, who fall under larger umbrella organisations, typically buy the carbon and stainless steel products. The 4 X 4 centers purchase the full range but there is more emphasis on the integrated 4 X 4 equipment.

The section on distribution identified that dealerships are often forced to buy through their holding companies. For that reason, they buy non-branded items. There is more room to be branding in the specialist 4 X 4 segment, but it is a definite opportunity to challenge the existing channels with the dealerships, as the market leader in the stainless segment, Maxe, has successfully ignored these.

Due to the cosmetic nature of the product, particularly in the stainless segment, fashionable items lead.

In the carbon steel segment, the main issue is price and in the 4 X 4 segment, it is quality.

Range is an issue in all the segments, as is getting products developed with speed, as and when new vehicles are released. It is evident that Duys' range is too small.

For the dealerships and fitment centers, speed of delivery is a major concern, without which, quality and price are null and void issues.

On the dealership level, it is the individual salesperson that sells / recommends parts. Hence, it is important that sales teams recognise them as the decision-maker and thus give them the due attention, in the form of incentives and in the form of sufficient sales material to aid them in selling D.A.M products. There is evidence that it may be worth looking into both digital and printed material, as the dealerships still tend to favour printed material while the specialist 4 X 4 centers favour digital.

It was stated categorically that Duys do not deliver fast enough since the closure of their Gauteng warehouse.

Thus, although it repeatedly comes up that customers view the products as low in differentiation, one has to question if it is not perhaps just their conscious response, when being questioned and that perhaps there is a level of differentiation? Particularly since Maxe products attract a 40 to 60% higher price than other players in the stainless market. One possible explanation may be that Maxe are effectively differentiating themselves through their superior offering in choice / range and their speed in getting new products to the market as and when new vehicles are launched.

Customers are looking for a one-stop-shop for all their bull bar, rollbar, sidestep and towbar needs.

Lastly, it is a presence that is required. Salespeople in the face of the customer all the time, making sure that D.A.M products are top in their awareness.

#### 4.9 Competitor analysis

The competitors differ according to the segment in which Duys is competing. What follows, is a analysis of these various competitors within the context of the different segments. The competitors are measured against each other for their price-quality offering and then further, according to their ability to meet the identified key factors for success. Use is also made of strategic group mapping, to show the relative strengths of the various firms and their respective market shares.

Note that a low score on price indicates that the firm is cheap, whilst a high score on everything else indicates high ability to compete in that segment, through that success factor.

Figure 4.7 Carbon steel price-quality matrix

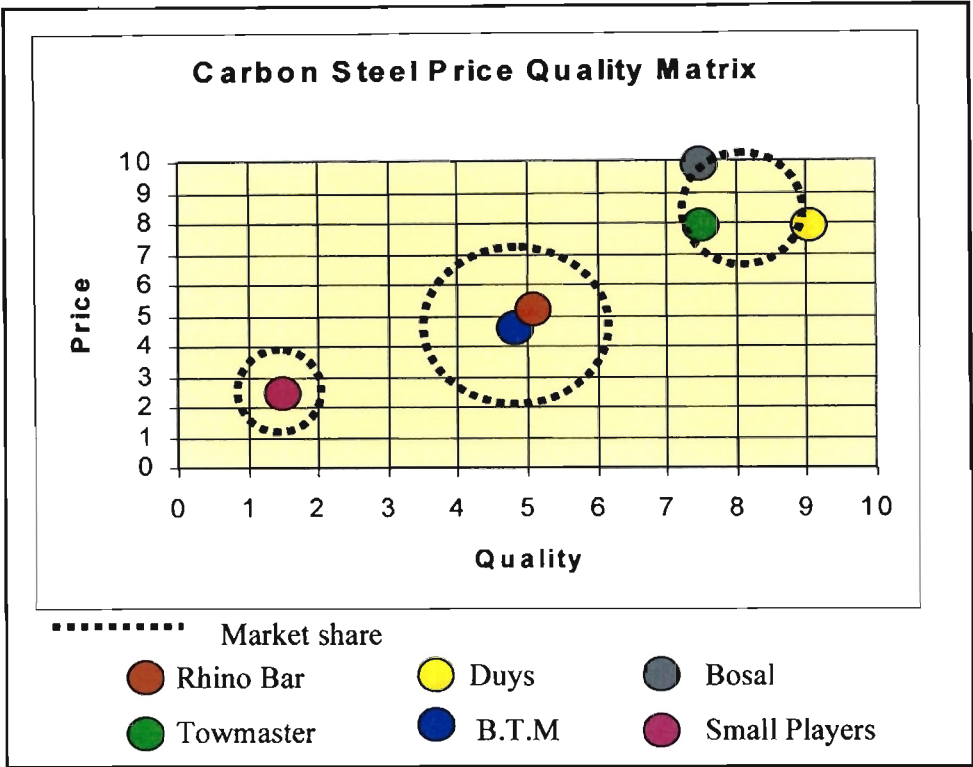


Figure 4.8 Stainless steel price-quality matrix

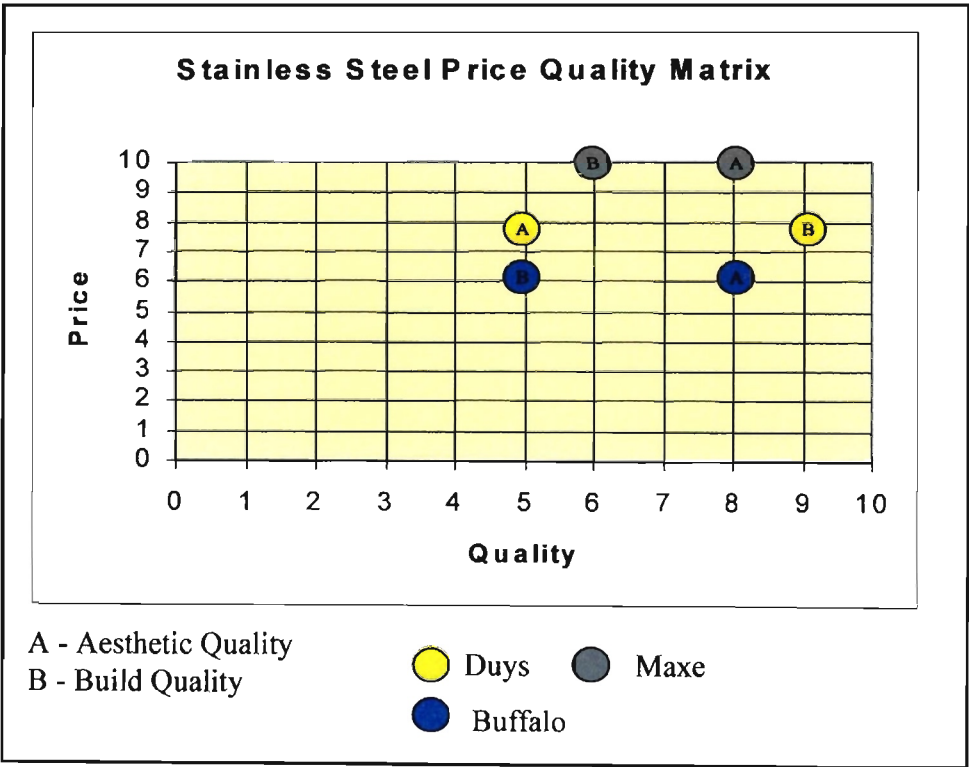




Figure 4.9 4 X 4 price-quality matrix

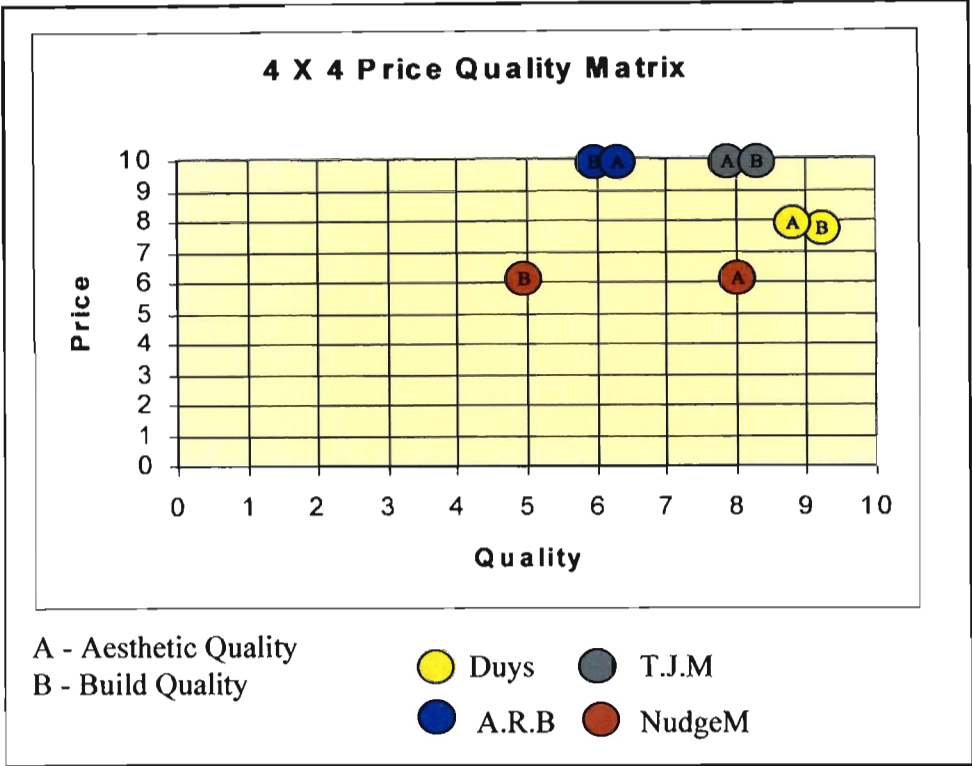


Figure 4.10 Stainless steel group map

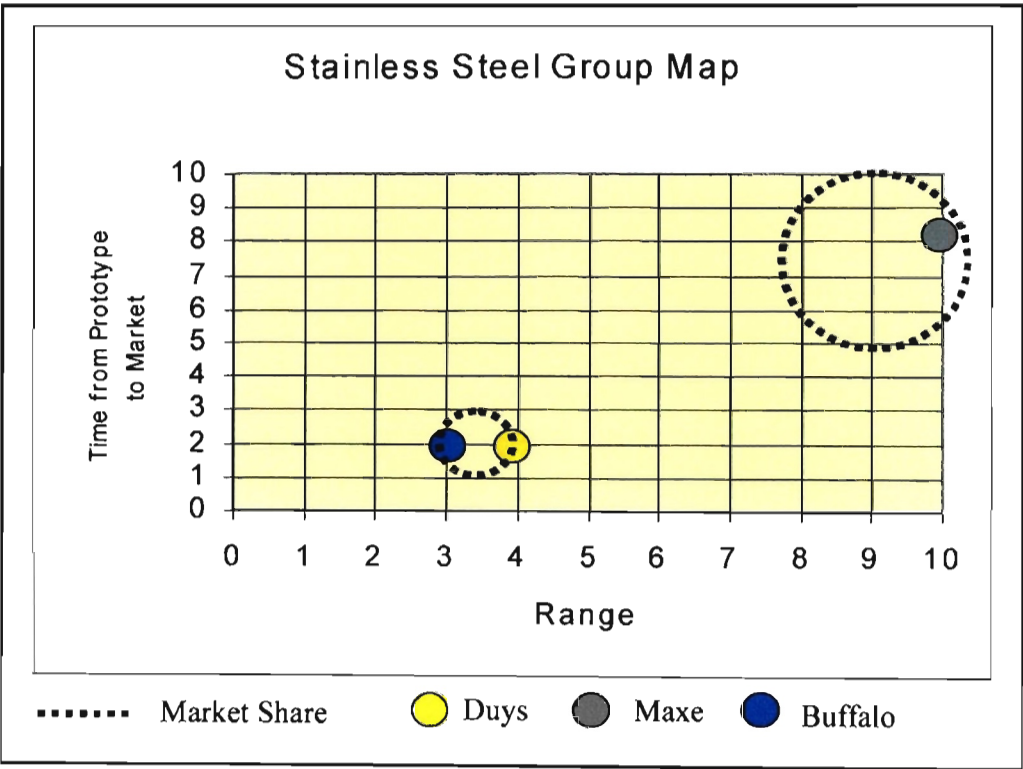




Figure 4.11 Carbon steel group map

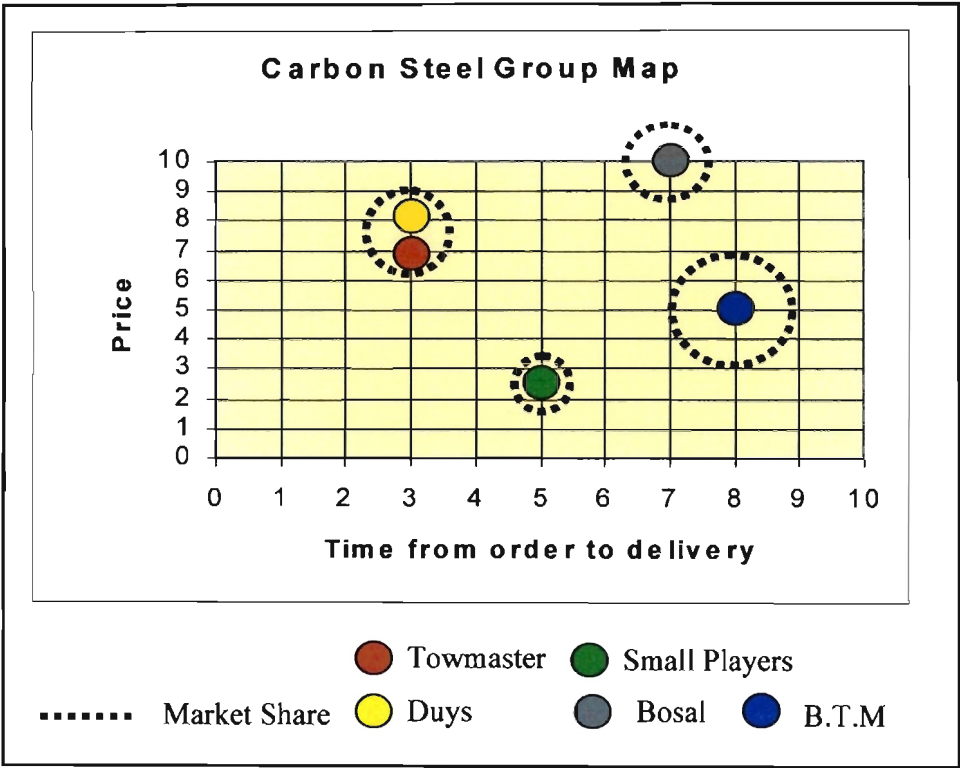


Figure 4.12 4 X 4 group map

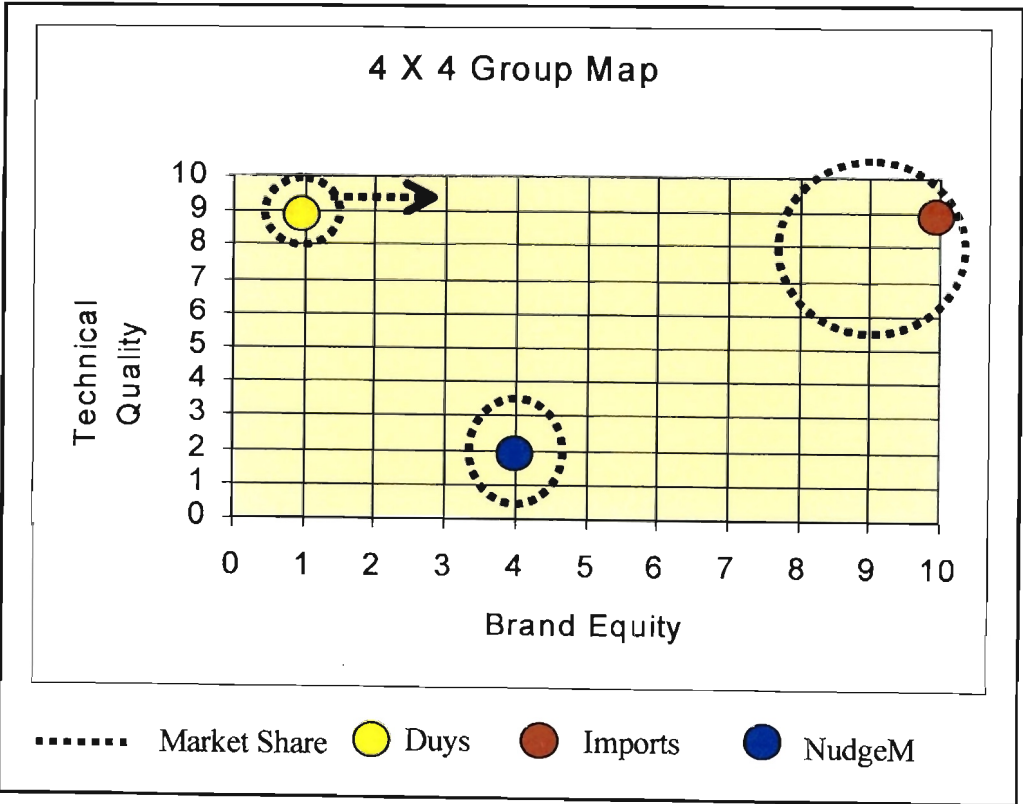


Table 4.2 Weighted competitor rating in the carbon steel segment

K.F.S		Competitors in the carbon steel segment					
		Duys	Giflow	Towmaster	Bosal	BTM	Small players
Price		9	9	9	10	5	2-3
Aesthetic Quality (Fashion)		10	10	7	7	7	4
Technological quality		9	10	8	8	6	5
Branding		4	0	8	8	7	5
Backup Service		4	?	5	5	4	1
Incentives	Above Board	1	?	7	7	4	0
	Below Board	0	?	?	?	?	8
Range		4	3	8	8	8	4
Short run economies of scale		3	1	6	6	6	8
Delivery		3	1	7	7	8	5
R & D	Prototype development	4	3	6	6	4	3
	Features	4	3	6	6	4	3
	Creativity	4	3	6	6	4	3
Prototype to Market		2	2	5	5	5	8

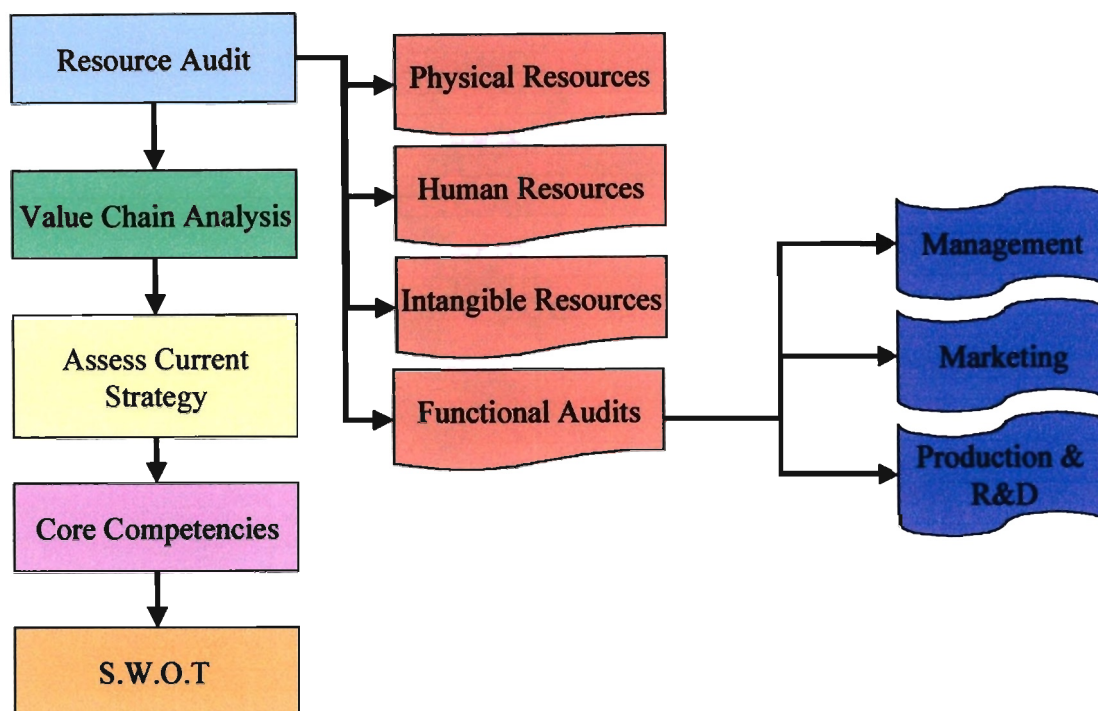
Figure 4.3 Weighted competitor rating in the stainless steel segment

K.F.S		Competitors in the stainless steel segment		
		Duys	Maxe	Buffalo
Price				
Aesthetic Quality (Fashion)		10	10	4
Technological quality		8	4	4
Branding		3	10	3
Backup Service		3	8	3
Incentives	Above Board	1	8	1
	Below Board	0	8	?
Range		4	10	3
Short run economies of scale		5	9	?
Delivery		4	8	?
R & D	Prototype development	4	9	2 (very much a copier)
	Features	8	8	2
	Creativity	7	8	2
Prototype to Market		2	8	?

Figure 4.4 Weighted competitor rating in the off-road segment

K.F.S		Competitors in the off-road segment		
		Duys	NudgeM	Imports
Price				
Aesthetic Quality (Fashion)		5	6	10
Technological quality		9	2	9
Branding		1 but increasing	4	10
Backup Service		6	4	4
Incentives	Above Board	8	2	6
	Below Board	0	0	0
Range		4	6	10
Short run economies of scale		9	8	N/A Stocking policy
Delivery		4	7	0 - 10
R & D	Prototype development	4	6	9
	Features	9	3	9
	Creativity	9	3	9
Prototype to Market		2	6	9

## INTERNAL ANALYSIS



### 4.10 Resource Audit

The internal analysis starts with a general audit of the resources at D.A.M's disposal. Both physical and intangible resources are examined to highlight areas of importance and possible places where value may be added.

#### 4.10.1 Physical resources - Production lines

Sharing different workstations leads to increased costs, time to move product, from laser to CNC for example, and damages to the product that occur along the way. However, it seems that there is little choice without exploring the possibility of moving premises - a costly affair since the existing buildings are owned by Duys.

Age of the equipment works against D.A.M in their aim to be technology and product leaders. Bending equipment is too far behind the competition, considering it contributes largely to the costs of other workstations.

The latest bending equipment will cost around R3.8M. It enables the user to do state-of-the-art bends with minimal set-up time and almost zero chance for operator error. No South African company has such advanced equipment yet. Such a purchase would possibly give the user a competitive advantage in speed, complexity of design ability and quality.

CNC Bending used in the integrated line, has very slow set-up and this is costly and inhibits moving from one product to another with rapid change. Compared to the competition (T.J.M) Duys would score a 2/10 with T.J.M scoring about an 8 or 9. Purchasing the pressbrake equipment will bring Duys up to speed here, but it needs to be carefully looked at in terms of the advantage it will provide and the purchasing cost it will involve.

The laser facilities are on a par with the rest of the world, however it seems that better management of the equipment is needed to better utilise the capacity.

Pickle and phosphate. This is used on the carbon steel range, so that the products don't rust. It adds to the cost however. This is a problem considering the carbon steel segment decides on cost (The main key success factor in this segment). If Duys considers it imperative to give this added value, even if the competition is not, it has to attain some advantage from this. The obvious advantage is that it protects the Duys name as a quality provider, however, the competition are still in business and they are not adding this value.

#### 4.10.2 Human Resources - Technical people

On the whole, the technical employees seem competent, however, the large portion that is not taking to the environment of growth and development through training is a disturbing scenario. It is also apparent that a lot of the organisation's knowledge is head knowledge so there is a reliance on workers being at work and not taking sick leave. This reliance on labour is an issue if that labour force is resistant to change and also if there is large risk of absenteeism in the future due to HIV/ AIDS. There is also a skills base that is missing should the company invest in more advanced equipment. The costs of which should therefore be included in the calculation of the cost of that equipment.

#### 4.10.3 Intangible Resources and brand equity

Brand equity for the group is good within engineering circles, however there is a distinct lack of attention to branding at product level.

#### 4.10.4 Functional Audit

This audit looks at the different functional departments, assessing each for their ability to add value to the organisation and pinpointing areas of weakness that might be addressed in the generation of recommendations.

##### a. Management and leadership audit

Management will be discussed under the main headings of the managerial function: Planning, organising, motivating, staffing and controlling.

- Planning

D.C.M has a clearly stated mission statement. D.A.M does not. This is not good since the two companies, although linked, have different focuses and goals.

D.A.M is also lacking a written down strategy for competing. This is found within the general marketing plan, but is not transcribed anywhere as a conclusive, guiding document.

Monitoring the environment and the needs of customers is done every six months in a formal session. It is good that this is done formally as many organisations fail to do this sort of planning.

There is no formal budgeting within D.A.M, as this is controlled from head office. Management must, however, be able to fully justify the means by which they prioritise various areas of spending.

No back-up planning is done which could result in a lack of adequate forecasting and being hit by a threat that was not necessarily recognised.

- Organising

Levels 1 to 4 are well organised and seem to function fairly well, with some problems at level 2. Level 2 could be better organised for better delivery and 'return on training'. As can be seen from the organogram in appendix 2, similar activities are grouped together for effectiveness. In a similar vein, authority is delegated down the line, but there seems to be a lack of return accountability required.



In general, jobs seem well organised and requirements seem clear, but there could be greater linking of individual goals to those of the organisation. Profit sharing has been considered in this regard.

The manner in which the business is divided into 'mini businesses' is innovative and seems to be effective for measurement and continuous improvement. The main problem here seems to be with the supervisors and getting them to run with the programme on a continual basis and see it as part of everyday activities. There seems to be a major challenge to management to keep the programme exciting, rewarding and basically keep up the momentum.

- **Motivation**

Absenteeism rate is good but should still be aimed to be improved as it is very costly to have workers off ill, particularly where they make up a large portion of the overall cost, in systems that seem fairly labour intensive.

Staff turnover seems low, indicating good morale. However, considering that the organisation is grouped into teams that are small, if one person leaves, it is a large percentage of the team and the effects of this on morale should be constantly monitored.

Relationships between management and workers seem to be good except for recent ill feelings with shop stewards. It still seems evident that there is no antagonism from management though.

Creativity is encouraged and when viable suggestions are made, these are implemented. This happens on a regular basis, right from level one and up.

- **Staffing**

Having the H.R function done through head office is a good idea in that it suggests that admin can be controlled from a central place and that every line manager should, in fact, be taking responsibility for the staff under him/her and even for playing a large role in selecting new recruits as and when they are required. It does, however, leave a possibility for a breakdown in communication from company to head office and there may not be a great enough understanding of the specific H.R needs of the business, by a distant H.R office. According to management at D.A.M, this office is not in touch with the specific needs of the people in the division, and that could, in time, have a negative effect on things like morale.

The policy of hiring people that are known to the business is good in that it has worked for the company, especially at upper management level. At the semi-skilled level, it is obvious that there is a lack of skilled people to be hired through brokers. Patrick Privett relates that they can't get people with the skills to take a jig that works time after time when utilised by a skilled person in R & D and make it work in the production stage. It is crucial that the issue of finding suitably skilled people be dealt with.

Amount of time spent on training is commendable but management must ensure that results are attained else the training process must be relooked at and/or the non-

performers must be dealt with. In a business that is aiming for massive, fast growth, it cannot be held back by non-performers.

- **Control**

Continually, the company is controlling progress through well-documented systems that are evolving as time goes on. The company is putting in ISO 9001 : 2000 as well as TS969 control systems. These systems help the management to see where the company is going and how it can do better. There seems to still be, however, very much a situation where people are continually putting out fires and managing one crisis to the next. This is no doubt the effect of growth pains and it will be systems that will help ease those for long run growth.

- b. Marketing Audit**

The lack of market information at the fingertips of management is a huge disadvantage. Like the tracking of production related activities, marketing and sales needs similar measurement. Forecasting sales will allow the company to target areas that may require more focus to get them moving and when certain areas are not performing, they can ask why and address the problems.

Marketing is a new function for the company and thus it is understood that it has a process to go through before it will establish workable systems.

It is noteworthy, that no matter how good a selling job is done, if the company does not have the facilities to:

- Develop new products at customer request
- Have a competitive range
- Deliver on time

- Give enough sales material
  - Give meaningful incentives
  - Come in at a competitive price and
  - Be well aware of the key factors for success in the different segments,
- then selling will not help.

Lastly, it seems that there is a lot of multi-tasking at management level. This is characteristic of a smallish business, where the sales / marketing manager is getting involved in many non-marketing related tasks. Sales will no doubt increase to a greater extent when focus can be given to the sole aim of marketing.

#### c. Production and R & D Audit

The main issue here seems to be a lack of skills. R & D is spending too much time with production because production is not able to work with the jigs passed on from R & D. Even though the jigs produce perfect product when used by the skilled R & D staff.

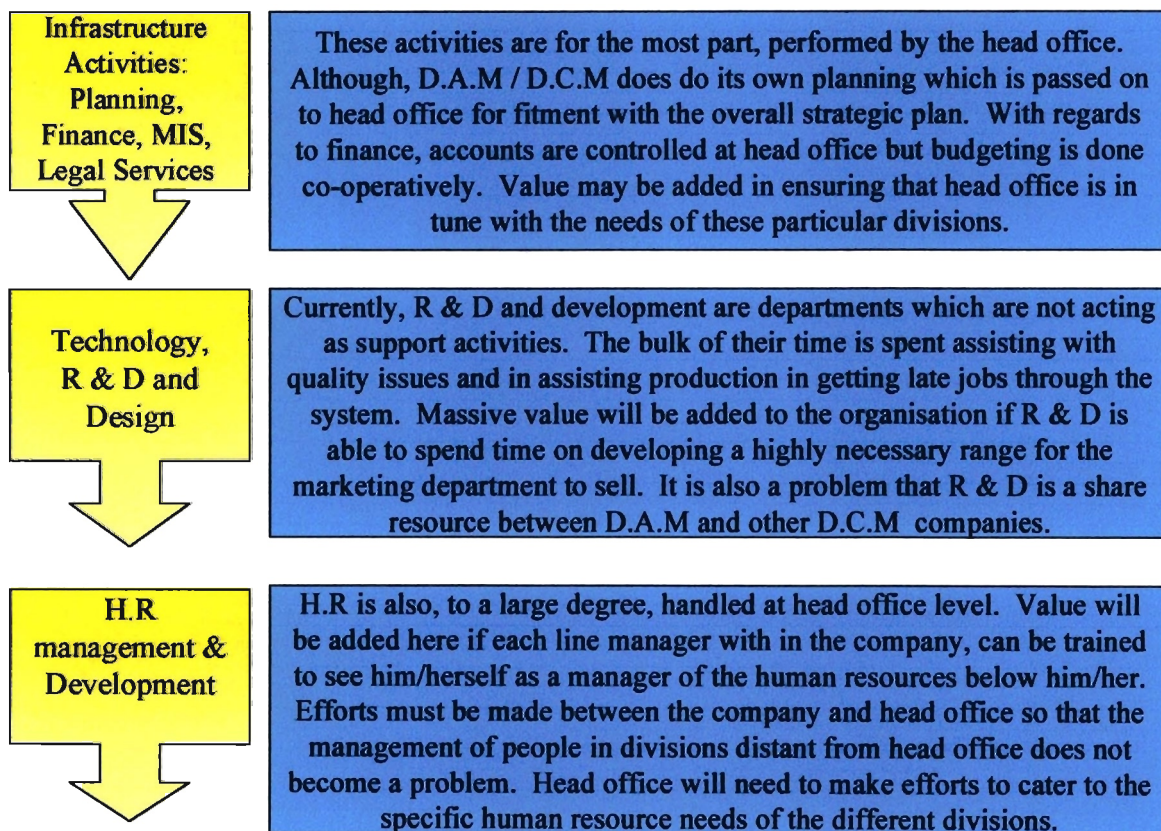
Duys has a pressing need to have a range of products. The only way this is going to happen is if R & D is allowed to focus on the development activity. Two last points:

- Stock outs are leading to a loss of business - so the building of the store is an excellent move.
- The company must perhaps reconsider the lead times it promises as it is losing customers by delivering late and essentially breaking a promise. It would be better to promise a later time and be on time than to promise the impossible. At the same time, work on narrowing the physical lead-time.

#### 4.11 Value chain analysis

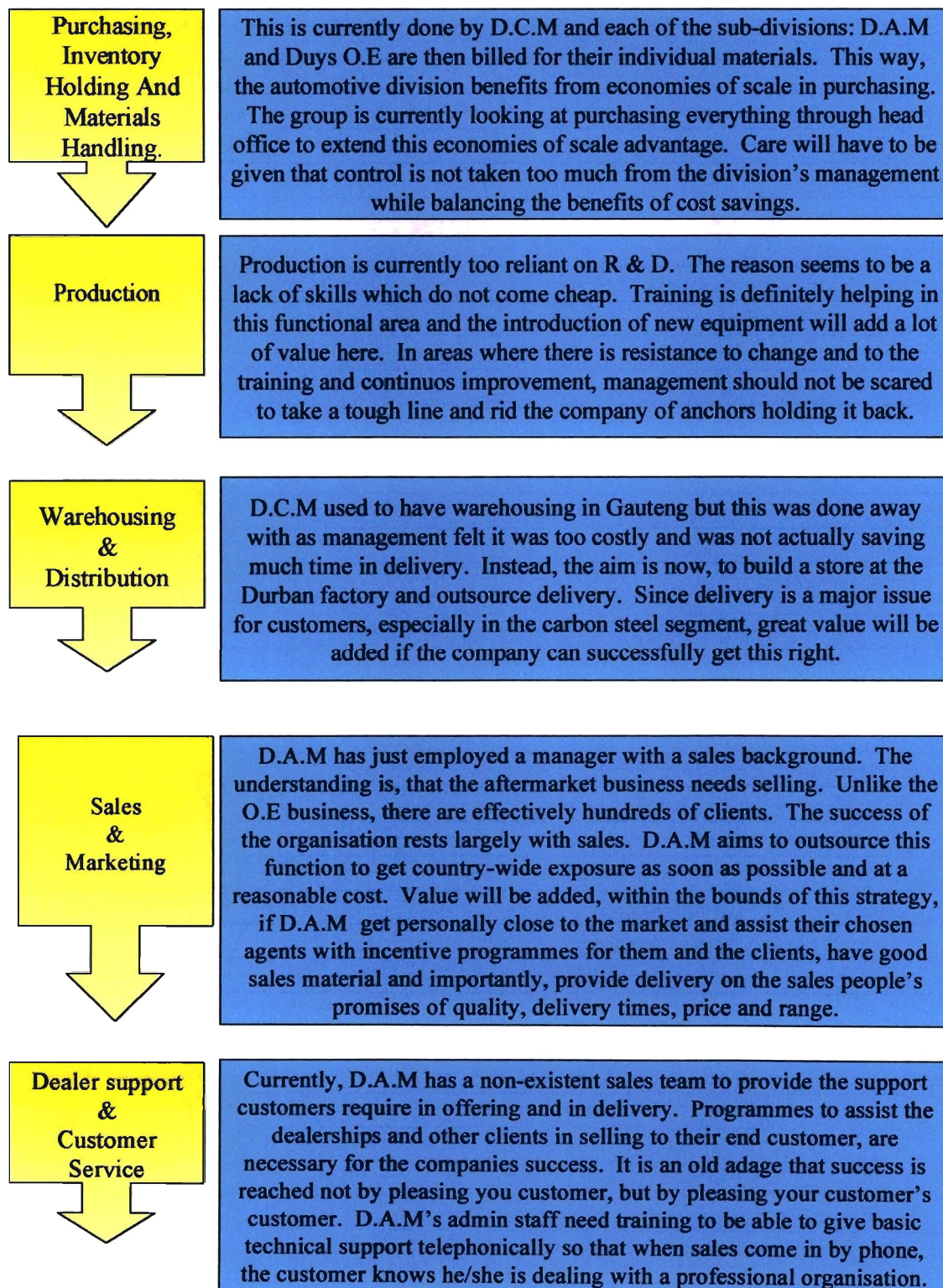
As per the theory, the company can be broken into areas where different tasks and functions are performed. These activities are assessed in terms of their effectiveness, with deficiencies being highlighted so that they might be addressed by the strategy developed.

##### 4.11.1 Support activities





#### 4.11.2 Primary activities



#### 4.12 Assessing the current strategy

The lack of a formal written strategy is a problem. It is highly important that a strategy be laid out in writing and that it be communicated to all members of the organisation so that they can share the vision and work towards the same destination.

The strategy to hold stock is imperative and the sooner this is implemented the better. From the research, it is evident that delivery times are a major factor for the carbon steel product buyers and to a slightly lesser extent, the stainless steel product clients.

Building product range is equally important and it seems that the current strategy is too vague as far as this is concerned. Management are aware that it is crucial and are equally aware that it is a problem area due to inefficient processes, but it has not been specifically noted where exact problems are and more specifically, how these can be resolved.

With regards to pricing. It seems that the current strategy does not make sufficient differentiation between pricing strategies for the different market segments. From the price quality matrixes previously looked at, aligned with respective market shares of the different competitors, it is evident that the bulk of the carbon steel market is for product that is cost effective. Duys is instead aiming to differentiate a product that is not seen as differentiatable by its clients. That said, there may well be a niche in the market for quality carbon steel product, but it certainly is not the bulk of the market, as is confirmed through the research into key

factors for success in that segment. Low price was the order of the day.

Pertaining to promotion of products, it seems that Duys has some very innovative ideas. There seems to be some lack of follow through however. Such as with the fitting of demo vehicles and the buy back plan. The company can, however, be commended on the avenues it has tried and there is little doubt that such continual efforts will reap reward as long as they are persistent. There are not enough brochures out with customers. It is evident that D.A.M are aware that this is the case.

The creation of brand awareness signifies a step in the right direction for Duys.

The outsourcing of sales and distribution by Duys signifies that they intend to remain as a focused manufacturing concern and not a sales business. The decision for this seems mostly to be based on the cost of setting up a distribution network countrywide. This strategy has benefits and limitations. Firstly, it will assist the company in going countrywide immediately if they can get an agent with that sort of exposure. Secondly, it is likely to be cheaper since that agent is sharing the selling costs with other products. On the flip side, there may be a lack of focus on Duys products as they are selling various items.

*Distribution strategy.* Duys' belief that storage in the various city centers is not necessary, may not be a hundred percent well founded. Feedback from the market has been that Duys is losing business due to inability to deliver on time. This may however be solved by the



plan to hold stock in Durban and so cannot be commented on until that scenario has been tested. Relying on the dealership to give better warning is not proactive enough and is not likely to win new business unless it can be done through good incentives.

#### 4.13 Core competencies

Although Duys is not the market leader, it has been a successful player in the market for many years now and has derived its success from certain key competencies. This seem to be, a well-recognised and respected reputation and name in the business. A major plus has been the relationship that they have developed over the years with Toyota at factory level. And, lastly, their superior quality that earned them the reputation they now have.

#### 4.14 S.W.O.T analysis

In this section, the strengths, weaknesses, opportunities and threats, are listed within weighted tables such that a value judgement can be made, in chapter five, as to the extent to which each opportunity may be capitalised on, taking into account the resources, strengths and weaknesses currently at the firm's disposal. The same is done for the firm's ability to negate the threats it faces.

As can be seen from the listing, the company has a similar amount of opportunities and threats. A distinguishing characteristic is the fact that the company has more weaknesses mentioned than strengths. It is noteworthy that the strengths it possesses, are the things that enable it to survive and indeed be successful. The weaknesses, are however, holding the

company back from massive growth and perhaps from even challenging the market leaders. It is noted that in gathering the information, the interviewees tended to place more emphasis on what they could be doing better than on what their strengths were. The obvious attitude was in looking to what can be done better. This paints the picture slightly worse than it is, however, it serves to highlight areas that need focus and that is a positive step.

The weighted S.W.O.T analysis makes things far clearer. It can be seen that the weaknesses far outweigh the strengths in their ability to deal with the environment. These weaknesses will make it difficult for the company to take advantage of the opportunities and indeed are creating a large problem in that they are likely to incapacitate the company in its ability to deal with the looming threats - of which there seem to be quite a few. Priority should therefore be given, to using the ranking and establishing ways in which to deal with the weaknesses that are likely to trip the firm up in dealing with the most critical of the threats. After that, the firm can prioritise ways to take opportunities. Ways to deal with these are discussed in chapter five.

# Impact analysis for D.A.M

Environmental change (opportunities & threats)	Non-pipe bullbars / alternate technology	Position Stainless Steel products at high quality / high selling price end of market.	New robotic welding Tech.	Contract runs other OEM's	New designs – recreational market
<b>Strengths</b>					
Achieve the impossible with old technology	2	2	0	2	1
Ability to reduce scrap by reworking product	1	1	0	1	1
OE linkage	2	1	2	2	1
OE base load / overheads	2	2	2	2	2
Product dimensional accuracy	2	2	0	2	1
Product quality detail	1	3	0	2	1
Brand is strong with Toyota dealers	2	2	0	0	1
Powdercoating is a shared resource	2	0	0	0	0
<b>Environmental Impact</b>	<b>+14</b>	<b>+13</b>	<b>+4</b>	<b>+11</b>	<b>+8</b>
<b>Scores</b>	<b>-0</b>	<b>-0</b>	<b>-0</b>	<b>-0</b>	<b>-0</b>
<b>SUB TOTAL 1</b>	<b>14</b>	<b>13</b>	<b>4</b>	<b>11</b>	<b>8</b>

+3	is a very good advantage in such a situation	Opportunities
+2	is a good advantage in such a situation	
+1	is an advantage for such a situation	
0	no impact	Threats
-1	is a disadvantage in such a situation	
-2	is a large disadvantage in such a situation	
-3	is a very large disadvantage in such a situation	

Environmental change (opportunities & threats)	Non-pipe bullbars / alternate technology	Position Stainless Steel products at high quality / high selling price end of market.	New robotic welding Tech.	Contract runs other OEM's	New designs – recreational market
<b>Weaknesses</b>					
Process of going from Inquiry to prototype to off tool manufacture is too slow	-3	-3	0	-3	-3
Manufacturing Technology lag behind competition	-3	-3	0	-2	-3
Design Technology lag behind competition	-3	-3	-1	-2	-3
CS – Addison (bend equip. outdated)	-1	-1	-1	-2	-3
Material preparation fit interface	-1	-1	-3	-3	-3
Bending / moulding bracketry process is using old equipment	-1	-1	-3	-3	-3
Volume per product is too small due to multiple changeovers and technology.	0	0	0	1	0
Scheduling buffer stockouts	0	-1	0	-1	-1
Poor production planning	-1	-1	-1	-1	-1
Concentrate only on "pipe" products	-3	2	-1	-1	-3
Attitude that product can be fixed / reworked downstream.	0	-1	-3	-2	1
Too many conflicting demands in R&D	-3	-3	0	-3	-3
Powdercoating – very old plant	-1	0	0	-1	-1
One colour process	-1	0	0	-2	-3
Different standards in one area (OE/AM)	-1	-1	-1	-1	-1
Can't bend 76mm Stainless pipe	0	-3	0	-3	-3
Tooling is old	-3	-1	-1	-1	-1
Production layout is poor – Site is too spread out	-1	-1	0	-2	0
<b>Environmental Impact</b>	<b>+0</b>	<b>+0</b>	<b>+0</b>	<b>+1</b>	<b>+1</b>
<b>Scores</b>	<b>-26</b>	<b>-22</b>	<b>-15</b>	<b>-33</b>	<b>-35</b>
<b>SUB TOTAL 2</b>	<b>-26</b>	<b>-22</b>	<b>-15</b>	<b>-32</b>	<b>-34</b>

Environmental change (opportunities & threats)	Spare wheel carriers	Aux. Tank market	Protector Bars across range	Improve distribution via "agents"	Grow business with Toyota "C&A"	Composite products – allowing better market segmentation and differentiation.
<b>Strengths</b>						
Achieve the impossible with old technology	1	1	1	0	1	1
Ability to reduce scrap by reworking product	1	2	0	0	1	1
OE linkage	2	2	2	2	3	-1
OE base load / overheads	2	2	2	0	3	2
Product dimensional accuracy	2	2	1	0	3	1
Product quality detail	2	2	2	1	3	1
Powdercoating is a shared resource	0	0	1	0	1	1
Brand is strong with Toyota dealers	2	2	0	3	2	2
<b>Environmental Impact</b>	<b>+12</b>	<b>+13</b>	<b>+9</b>	<b>+6</b>	<b>+17</b>	<b>+9</b>
<b>Scores</b>	<b>-0</b>	<b>-0</b>	<b>-0</b>	<b>-0</b>	<b>-0</b>	<b>-1</b>
<b>SUB TOTAL 3</b>	<b>12</b>	<b>13</b>	<b>9</b>	<b>6</b>	<b>17</b>	<b>8</b>

+3	is a very good advantage in such a situation	Opportunities
+2	is a good advantage in such a situation	
+1	is an advantage for such a situation	
0	no impact	Threats
-1	is a disadvantage in such a situation	
-2	is a large disadvantage in such a situation	
-3	is a very large disadvantage in such a situation	

Environmental change (opportunities & threats)	Spare wheel carriers	Aux. Tank market	Protector Bars across range	Improve distribution via "agents"	Grow business with Toyota "C&A"	Composite products – allowing better market segmentation and differentiation.
<b>Weaknesses</b>						
Process of going from Inquiry to prototype to off tool manufacture is too slow	-3	-3	-3	-3	-2	-1
Manufacturing Technology lag behind competition	-1	-1	-3	-1	-3	-3
Design Technology lag behind competition	-2	-1	-1	-2	-3	-3
CS – Addison	-2	0	-2	-2	-3	0
Material preparation fit interface	-3	0	-3	-3	-3	-1
Bending / moulding bracketry process is using old equipment	-1	-3	-1	0	-1	-1
Volume per product is too small due to multiple changeovers and technology.	2	2	2	0	1	0
Scheduling buffer stockouts	0	0	0	-2	-2	0
Poor production planning	-1	-1	-1	0	-1	-1
Concentrate only on "pipe" products	-2	-3	1	-1	-2	-3
Attitude that product can be fixed / reworked downstream.	-1	-1	-1	0	-1	-1
Too many conflicting demands in R&D	-3	-3	-3	-3	-3	-3
Powdercoating – very old plant	-2	0	-2	0	-2	-1
One colour process	-2	0	-2	0	-3	-1
Different standards in one area	-1	-1	-1	0	-2	-1
Can't bend 76mm Stainless pipe	0	0	-3	-2	-3	0
Tooling is old	-1	-2	-2	-1	-2	-1
Production layout is poor – Site is too spread out	0	0	0	0	0	-1
<b>Environmental Impact</b>	<b>+2</b>	<b>+2</b>	<b>+2</b>	<b>+0</b>	<b>+1</b>	<b>+0</b>
<b>Scores</b>	<b>-25</b>	<b>-19</b>	<b>-27</b>	<b>-20</b>	<b>-36</b>	<b>-22</b>
<b>SUB TOTAL 4</b>	<b>-23</b>	<b>-17</b>	<b>-25</b>	<b>-20</b>	<b>-35</b>	<b>-22</b>

Environmental change (opportunities & threats)	Brand is weak with man on street	Changing legislation (ECE) accessories	Strong competitor position	Bumper replacement / ARB & TJM	Nudge M	Electro polishing better than hand polish (Perception) Lack of market needs understanding in terms of AM and product detail quality
<b>Strengths</b>						
Achieve the impossible with old technology	0	3	2	1	1	-1
Ability to reduce scrap by reworking product	0	1	1	2	1	0
OE linkage	3	3	3	2	-1	0
OE base load / overheads	3	3	3	2	2	3
Product dimensional accuracy	3	1	2	2	1	0
Product quality detail	3	2	2	2	2	3
Powdercoating is a shared resource	0	0	0	-1	-1	0
Brand is strong with Toyota dealers	3	2	2	1	1	2
<b>Environmental Impact</b>	<b>+15</b>	<b>+15</b>	<b>+15</b>	<b>+12</b>	<b>+8</b>	<b>+8</b>
<b>Scores</b>	<b>-0</b>	<b>-0</b>	<b>-0</b>	<b>-1</b>	<b>-2</b>	<b>-1</b>
<b>SUB TOTAL 5</b>	<b>15</b>	<b>15</b>	<b>15</b>	<b>11</b>	<b>6</b>	<b>7</b>

+3	is a very good advantage in such a situation	Opportunities
+2	is a good advantage in such a situation	
+1	is an advantage for such a situation	
0	no impact	Threats
-1	is a disadvantage in such a situation	
-2	is a large disadvantage in such a situation	
-3	is a very large disadvantage in such a situation	



Environmental change (opportunities & threats)	Brand is weak with man on street	Changing legislation (ECE) accessories	Strong competitor position	Bumper replacement / ARB & TJM	Nudge M	Electro polishing better than hand polish (Perception) Lack of market needs understanding in terms of AM and product detail quality
<b>Weaknesses</b>						
Process of going from Inquiry to prototype to off tool manufacture is too slow	-3	-3	-3	-3	-3	0
Manufacturing Technology lag behind competition	-3	-3	-3	-3	-3	-3
Design Technology lag behind competition	-3	-3	-3	-1	-1	-1
CS – Addison	-2	-2	-3	-1	-1	-3
Material preparation fit interface	-3	-3	-3	-3	-3	-3
Bending / moulding bracketry process is using old equipment	-1	-1	-3	-3	-3	-3
Volume per product is too small due to multiple changeovers and technology.	1	0	1	1	1	1
Scheduling buffer stockouts	-1	0	-1	-1	-1	-1
Poor production planning	-1	0	-1	-1	-1	-1
Concentrate only on “pipe” products	-2	-3	-1	-3	-3	0
Attitude that product can be fixed / reworked downstream.	-1	0	1	1	1	-2
Too many conflicting demands in R&D	-3	-3	-3	-3	-3	-3
Powdercoating – very old plant	-1	0	-1	-3	-3	0
One colour process	-2	0	-1	-3	-3	0
Different standards in one area	-1	-1	-1	-1	-1	-1
Can't bend 76mm Stainless pipe	-3	-3	-3	0	0	-3
Tooling is old	-1	-1	-1	-1	-1	-1
Production layout is poor – Site is too spread out	0	0	0	-1	-1	-1
<b>Environmental Impact</b>	<b>+1</b>	<b>+0</b>	<b>+2</b>	<b>+2</b>	<b>+2</b>	<b>1</b>
<b>Scores</b>	<b>-31</b>	<b>-26</b>	<b>-31</b>	<b>-31</b>	<b>-31</b>	<b>-26</b>
<b>SUB TOTAL 6</b>	<b>-30</b>	<b>-26</b>	<b>-29</b>	<b>-29</b>	<b>-29</b>	<b>-25</b>



Environmental change (opportunities & threats)	Shared resources with production and R&D	Blurred in product focus	Copiers not innovators	Never deliver on time	Breakdown maintenance	Not close enough to customer to establish needs properly
<b>Strengths</b>						
Achieve the impossible with old technology	-3	0	1	-3	3	0
Ability to reduce scrap by reworking product	-3	0	0	-2	2	0
OE linkage	0	1	1	-1	0	2
OE base load / overheads	1	0	0	-2	3	0
Product dimensional accuracy	2	0	0	0	0	0
Product quality detail	2	0	2	0	0	0
Powdercoating is a shared resource	0	0	0	-2	-1	0
Brand is strong with Toyota dealers	0	0	0	1	0	0
<b>Environmental Impact</b>	<b>+5</b>	<b>+1</b>	<b>+4</b>	<b>+0</b>	<b>+8</b>	<b>+2</b>
<b>Scores</b>	<b>-6</b>	<b>-0</b>	<b>-0</b>	<b>-10</b>	<b>-1</b>	<b>-0</b>
<b>SUB TOTAL 7</b>	<b>-1</b>	<b>1</b>	<b>4</b>	<b>-10</b>	<b>7</b>	<b>2</b>

+3	is a very good advantage in such a situation	Opportunities
+2	is a good advantage in such a situation	
+1	is an advantage for such a situation	
0	no impact	Threats
-1	is a disadvantage in such a situation	
-2	is a large disadvantage in such a situation	
-3	is a very large disadvantage in such a situation	

Environmental change (opportunities & threats)	Shared resources with production and R&D	Blurred in product focus	Copiers not innovators	Never deliver on time	Breakdown maintenance	Not close enough to customer to establish needs properly
<b>Weaknesses</b>						
Process of going from Inquiry to prototype to off tool manufacture is too slow	-2	-2	-3	-3	0	-2
Manufacturing Technology lag behind competition	-2	0	-3	-3	-2	-1
Design Technology lag behind competition	-2	0	-3	-3	0	-2
CS – Addison	-2	0	-2	-3	-2	0
Material preparation fit interface	-1	0	-1	-3	0	0
Bending / moulding bracketry process is using old equipment	-1	0	-1	-2	-2	0
Volume per product is too small due to multiple changeovers and technology.	-3	-3	-1	-2	0	0
Scheduling buffer stockouts	-2	-1	0	-3	0	0
Poor production planning	-3	-3	-1	-3	-2	0
Concentrate only on "pipe" products	0	1	-2	0	0	-2
Attitude that product can be fixed / reworked downstream.	-2	0	0	-3	0	0
Too many conflicting demands in R&D	-3	-3	-3	-3	0	-2
Powdercoating – very old plant	-1	0	-1	-1	-2	0
One colour process	0	0	-1	0	0	0
Different standards in one area	-2	-3	0	-1	0	0
Can't bend 76mm Stainless pipe	0	0	-1	0	0	0
Tooling is old	-2	0	0	-1	-2	0
Production layout is poor – Site is too spread out	-3	0	0	-2	0	0
<b>Environmental Impact</b>	<b>+0</b>	<b>+1</b>	<b>+0</b>	<b>+0</b>	<b>+0</b>	<b>+0</b>
<b>Scores</b>	<b>-31</b>	<b>-15</b>	<b>-23</b>	<b>-36</b>	<b>-12</b>	<b>-9</b>
<b>SUB TOTAL 8</b>	<b>-31</b>	<b>-14</b>	<b>-23</b>	<b>-36</b>	<b>-12</b>	<b>-9</b>

Environmental change (opportunities & threats)	Poor product range	Product range knowledge in market is bad	Contract designs used in A.M UGLY PRODUCT	Factory "entrance" is shocking	New vehicle part range response is too slow	New vehicles come out already fitted
<b>Strengths</b>						
Achieve the impossible with old technology	1	0	-2	0	2	0
Ability to reduce scrap by reworking product	1	0	-1	0	1	0
OE linkage	-2	1	-3	-3	-2	2
OE base load / overheads	2	0	1	-3	2	2
Product dimensional accuracy	1	0	1	0	2	0
Product quality detail	2	0	2	0	2	0
Powdercoating is a shared resource	0	0	0	0	0	0
Brand is strong with Toyota dealers	1	1	1	0	1	3
<b>Environmental Impact</b>	<b>+8</b>	<b>+2</b>	<b>+5</b>	<b>+0</b>	<b>+10</b>	<b>+7</b>
<b>Scores</b>	<b>-2</b>	<b>-0</b>	<b>-6</b>	<b>-6</b>	<b>-2</b>	<b>-0</b>
<b>SUB TOTAL 9</b>	<b>6</b>	<b>2</b>	<b>-1</b>	<b>-6</b>	<b>8</b>	<b>7</b>

+3	is a very good advantage in such a situation	Opportunities
+2	is a good advantage in such a situation	
+1	is an advantage for such a situation	
0	no impact	Threats
-1	is a disadvantage in such a situation	
-2	is a large disadvantage in such a situation	
-3	is a very large disadvantage in such a situation	

Environmental change (opportunities & threats)	Poor product range	Product range knowledge in market is bad	Contract designs used in A.M UGLY PRODUCT	Factory "entrance" is shocking	New vehicle part range response is too slow	New vehicles come out already fitted
<b>Weaknesses</b>						
Process of going from Inquiry to prototype to off tool manufacture is too slow	-3	0	-2	0	-3	0
Manufacturing Technology lag behind competition	-3	0	-2	0	-2	0
Design Technology lag behind competition	-3	0	-2	0	-2	0
CS – Addison	-3	0	-2	0	-2	0
Material preparation fit interface	-3	0	-2	0	-2	0
Bending / moulding bracketry process is using old equipment	-1	0	-1	0	-1	0
Volume per product is too small due to multiple changeovers and technology.	0	0	0	0	0	0
Scheduling buffer stockouts	0	0	0	0	0	0
Poor production planning	0	0	0	0	-3	-2
Concentrate only on "pipe" products	-3	-2	-2	0	-2	-2
Attitude that product can be fixed / reworked downstream.	0	0	-1	0	0	0
Too many conflicting demands in R&D	-3	-3	-3	0	-3	-1
Powdercoating – very old plant	0	0	-1	0	-1	0
One colour process	-1	0	-1	0	-1	0
Different standards in one area	-1	0	-1	0	0	0
Can't bend 76mm Stainless pipe	-3	0	-3	0	-2	0
Tooling is old	-1	0	-2	0	-1	0
Production layout is poor – Site is too spread out	-1	0	0	-2	0	0
<b>Environmental Impact</b>	<b>+0</b>	<b>+0</b>	<b>+0</b>	<b>+0</b>	<b>+0</b>	<b>+0</b>
<b>Scores</b>	<b>-29</b>	<b>-5</b>	<b>-25</b>	<b>-2</b>	<b>-25</b>	<b>-5</b>
<b>SUB TOTAL 10</b>	<b>-29</b>	<b>-5</b>	<b>-25</b>	<b>-2</b>	<b>-25</b>	<b>-5</b>

Environmental change (opportunities & threats)	Non-pipe bullbars / alternate technology	Position Stainless Steel products at high quality / high selling price end of market.	New robotic welding Tech.	Contract runs other OEM's	New designs – recreational market
SUB TOTAL 1	+14	+13	+4	+11	+8
SUB TOTAL 2	-26	-22	-15	-32	-34
TOTAL	-12	-9	-11	-21	-26

Environmental change (opportunities & threats)	Spare wheel carriers	Composite products – allowing better market segmentation and differentiation.	Protector Bars across range	Improve distribution via “agents”	Grow business with Toyota “C&A”	Aux. Tank market
SUB TOTAL 3	+12	+8	+9	+6	+17	+13
SUB TOTAL 4	-23	-22	-25	-20	-35	-17
TOTAL	-11	-14	-16	-14	-18	-4

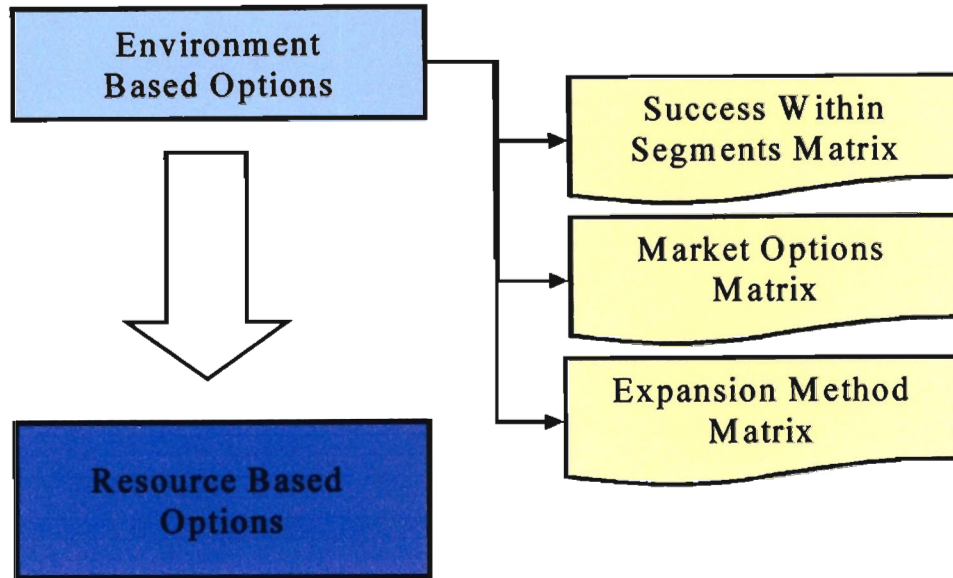
Environmental change (opportunities & threats)	Brand is weak with man on street	Electro polishing better than hand polish (Perception) Lack of market needs understanding in terms of AM and product detail quality	Strong competitor position	Bumper replacement / ARB & TJM	Changing legislation (ELE) accessories	Nudge M
SUB TOTAL 5	+15	+7	+15	+11	+15	+6
SUB TOTAL 6	-31	-26	-31	-31	-26	-31
TOTAL	-16	-19	-16	-20	-11	-25

Environmental change (opportunities & threats)	Shared resources with production and R&D	Not close enough to customer to establish needs properly	Copiers not innovators	Never deliver on time	Breakdown maintenance	Blurred in product focus
SUB TOTAL 7	-1	+2	+4	-10	+7	+1
SUB TOTAL 8	-31	-9	-23	-36	-12	-14
TOTAL	-32	-7	-19	-46	-5	-13

Environmental change (opportunities & threats)	Poor product range	Product range knowledge in market is bad	Contract designs used in A.M UGLY PRODUCT	Factory "entrance" is shocking	New vehicle part range response is too slow	New vehicles come out already fitted
SUB TOTAL 9	+6	+2	-1	-6	+8	+7
SUB TOTAL 10	-29	-5	-25	-2	-25	-5
TOTAL	-23	-3	-26	-8	-17	2



## GENERATING STRATEGIC ALTERNATIVES



### 4.15 Success within segments matrix

Starting with Porter's 'Generic Options Matrix' (1985), a scenario is found, in which D.A.M is not able to directly fit its entire business into that one matrix, without ignoring the needs of one or more of their target segments.

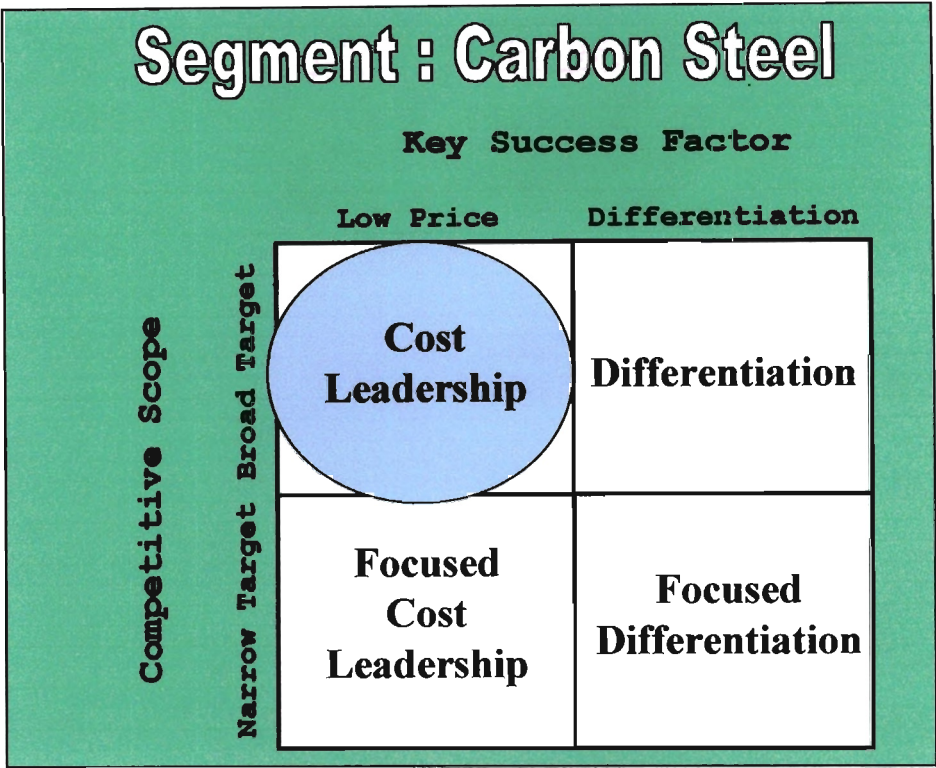
Therefore, as a substitute, a reworked version of the generic options matrix that offers a choice per segment, is used, as per the model developed in chapter two. In this light, the three market segments can be allocated to three 'success within segments matrixes' as shown in figures 4.13 - 4.15.

From the external analysis, it is obvious that the major market share in the carbon steel products segment is for a cheap product. There is little belief amongst the existing clientele in this segment, that their customers are willing to pay extra for added value. Instead, it is a segment where low price wins the lion's share.

Further, the market is a broad one, where D.A.M focuses on all dealers, aiming to make a broad range of products for them to choose from.

Hence, the first matrix for the carbon steel segment will look as follows:

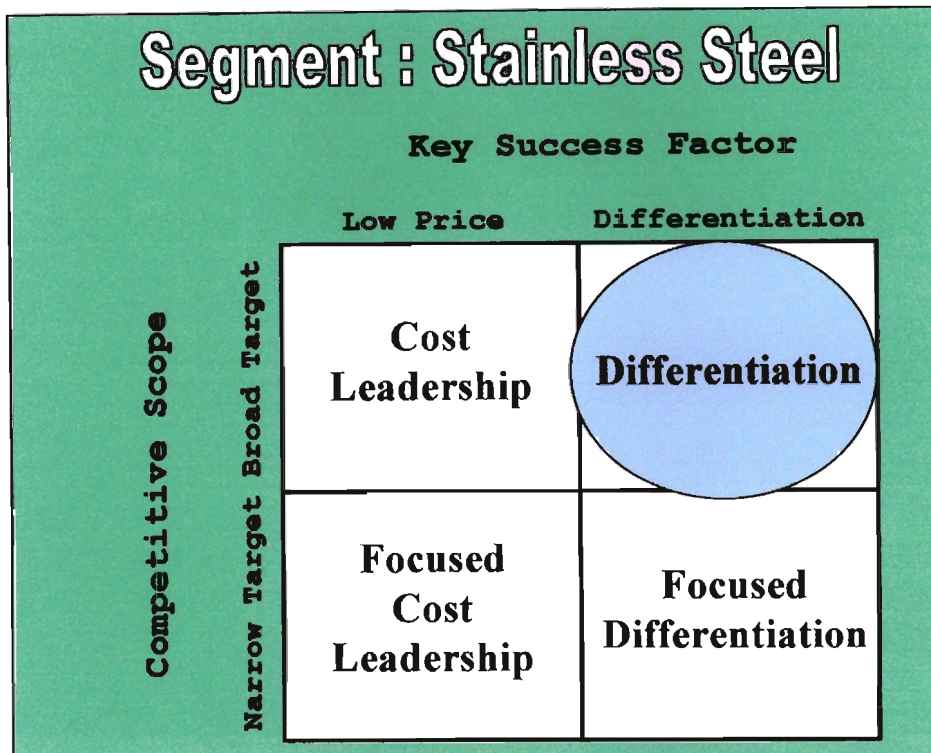
Figure 4.13 Success within segments matrix : Carbon steel segment



Similarly focused at the same broad market but aiming to do so with a larger range, D.A.M is targeting its stainless line at a fairly broad target market. This market however is more fashion sensitive, willing to pay a bit extra for looks and to be able to choose between a decent range / offering. Hence, the stainless segment's matrix might look as follows:

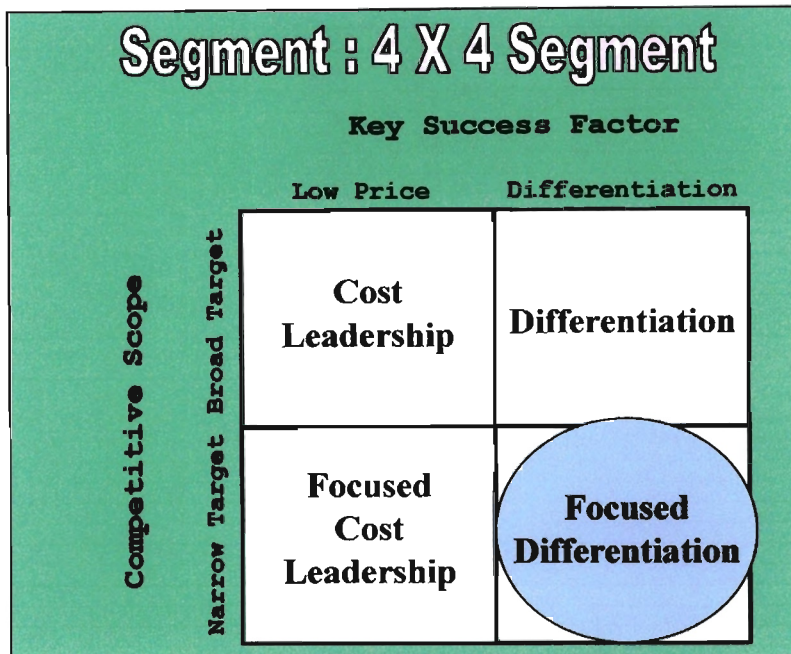


Figure 4.14 Success within segments matrix : Stainless steel segment



Contrary to the other two segments, the 4 X 4 specialist segment is narrower, it has fewer customers with very focused needs. These customers demand special valued added products and are not nearly as focused on price. Their customers are purchasing vehicles between R300K and R1M. Their concern is not cost to the same degree as the buyer of a R1,000 accessory. The clients of a 4 X 4 specialist can spend well over R30,000 'kiting up' their vehicles. Value added is what sells in this segment. Thus, the matrix might look as follows:

Figure 4.15 Success within segments matrix : 4 X 4 segment



#### 4.16 The market options matrix or 'Ansoff's Matrix'

It is evident that Duys is extremely capable at manufacturing accessories for all the segments previously discussed. It is, however, also evident that Duys does not have a big enough range for any of the segments. The market has been broken into fair sized segments that should be measurable and each should be large enough to warrant time and investment. Hence, the strategy for D.A.M should be to continue its focus on these existing segments, but develop new products while at the same time pushing sales with its existing products. This suggests a two pronged approach if Ansoff's matrix (1989) is utilised.

- Penetrate the existing market with existing products and
- Develop new products to increase sales to these same segments.

Ansoff (1989) would depict this scenario as follows:

Figure 4.16 Market options matrix for D.A.M

		PRODUCT	
		PRESENT	NEW
CONSUMERS / MARKET	PRESENT	<b>Market Penetration</b>	<b>Product Development</b>
	NEW	<b>Market Development</b>	<b>Diversification</b>

According to the theory discussed in chapter two, it is evident that D.A.M will have the most success with a product development strategy as the market penetration strategy is best suited to a firm that is looking to maximise on strengths versus overcoming weaknesses and where the firm is in a strong competitive position. Neither of these is the case with D.A.M.

Instead, a product development strategy is ideally suited to a firm that is in a weak competitive position. It does however require the firm to maximise strengths versus overcoming weaknesses so D.A.M will have to be aware that their weaknesses, such as the current inability to get products quickly through development and into the market, will hamper this strategy until they successfully deal with those issues. Ways to do this are suggested in the following chapter.

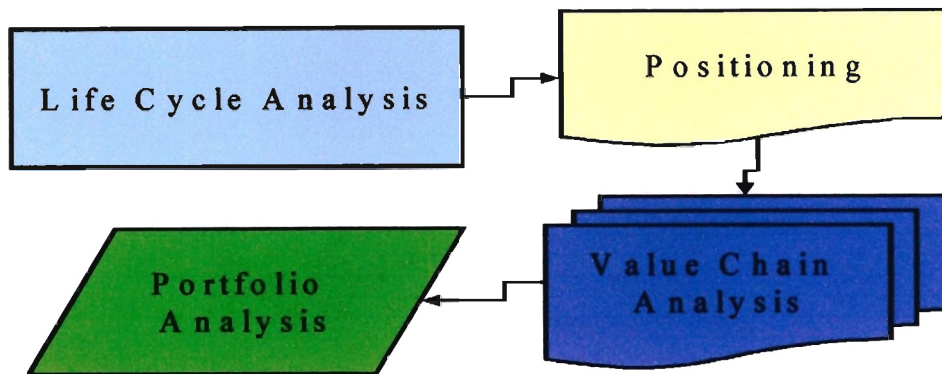
4.17 Expansion

According to D.A.M's management, it is a primary goal to see D.A.M grow from its infant state, to a business that contributes positively to the group. To examine strategies for achieving these goals of growth and expansion, the use of the expansion method matrix will be most useful.

For now, D.A.M is not looking to develop any 'serious' relationships through merger or acquisition or the like, but is rather looking to understand its strengths and weaknesses and develop internally. The same can be said for their attitude to geographic expansion. Whilst export orders will be considered, it is the South African market that is the definite focus of the company. The resulting matrix is as follows:

Figure 4.17 Expansion method matrix for D.A.M

		COMPANY	
		Inside	Outside
GEOGRAPHIC LOCATION	Home Country	Internal Development	Merger Acquisition Alliance Joint Venture Franchise
	International	Export Overseas Office Overseas Mnfr Multinational Op. Global Op.	Merger Acquisition Turnkey Joint Venture Franchise Licensing

**SUITABILITY**

To double check the fit of the grand strategies developed in the previous section, a suitability analysis is done next, which cross references them with data that was compiled in chapter three.

**4.18 Life-cycle analysis**

A good starting point is to look at the competitive situation. It can be said that in all segments, Duys is in a tenable situation. It is far behind the market leaders in each case, but it is maintaining and has sufficient strengths to continue to do so without divesting.

With regards to life stage, one would probably place the industry as being in a growth phase. Although, with all the shifting of customer focuses, it is uncertain whether the industry might be pushed into a mature or even aging position or if it might be given a complete new lease on a all-new growth phase.

The resulting strategy is that D.A.M should grow with the industry, catch up and find a niche. D.A.M is focusing on the 4 X 4 niche market but at the same time, the strategies suggested, suggest growth and an element of

catching up. Hence, the life cycle matrix would support the grand strategies selected.

Figure 4.18 Life cycle matrix for D.A.M

		Stage of industry maturity			
		Embryonic	Growth	Mature	Ageing
Competitive position	Dominant	Fast grow Start up	Fast grow Attain cost leadership Renew Defend position	Defend position Attain cost leadership Renew Fast grow	Defend position Renew Grow with industry
	Strong	Start up Differentiate Focus Fast grow	Fast grow Catch up Attain cost leadership Differentiate	Attain cost leadership Renew Focus Differentiate Grow in industry	Find niche Hold niche Hang in Grow with industry Harvest
	Favourable	Start up Grow with industry Focus	Differentiate Focus Catch up Grow with industry	Harvest, catch up Find niche Hold niche Renew Turnaround Differentiate, focus Grow with industry	Retrench Turnaround
	Tenable	Find niche Catch up Grow with industry	Harvest, catch up Hold niche, hang in Find niche Turnaround, focus Grow with industry	Harvest Turnaround Find niche Retrench	Divert Retrench
	Weak	Find niche Catch up Grow with industry	Turnaround Retrench	Withdraw Divest	Withdraw

#### 4.19 Positioning

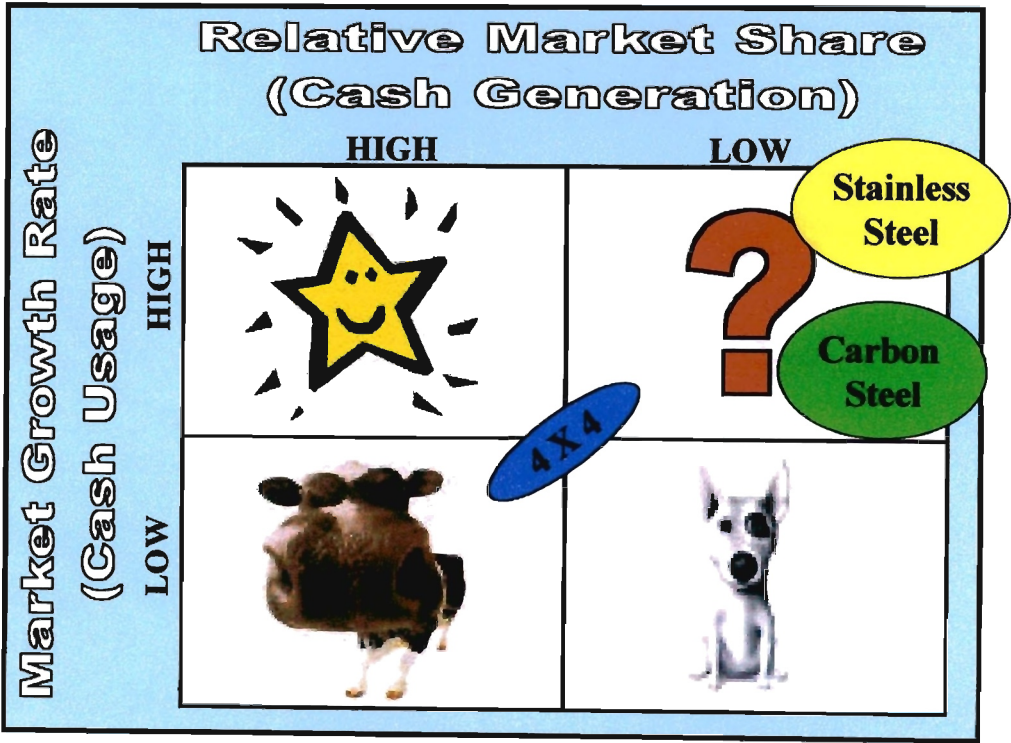
In all its segments, Duys is positioned as the quality provider, offering added benefits such as pickle and phosphate. D.A.M is also positioned as the company that is so well recognised by Toyota that they have been on the 'Top 50 supplier list' for over 25 years. In general, it can be said that they are positioning themselves in a similar manner in three segments that each have very specific needs.



4.20 Portfolio analysis

The problem is that D.A.M it is so new, so it is difficult to really have a cash cow to rely on. One would place the 4 X 4 segment normally as a star, but for the purposes of growing the other segments, it may well have to be the cash cow for the other segments. It also has question mark tendencies because of its youth. The stainless and carbon steel businesses are definite question marks and will remain as such until the stainless business can build a range and start to get product quickly from design phase to actual delivery. The carbon steel segment will likewise stay a question mark until D.A.M manages to come down to competitive levels and to deliver quickly.

Figure 4.19 D.A.M's portfolio matrix



#### 4.21 Summary

From this section, it was established that D.A.M is involved in three different segments within the South African automotive aftermarket. These being, that for carbon steel accessories, stainless steel accessories and the specialist 4 X 4 segment.

Competition was analysed in each segment and it was shown that Duys is not a leader in any segment primarily due to the fact that it is not correctly position in each segment and further, because of some fundamental weaknesses that have to be dealt with. This will be done in the following chapter, and the suggestions should allow the company to provide delivery on the key success factors in a meaningful way to its customers.

Broadly speaking, the analysis in this chapter suggested that D.A.M has enough competencies to remain as a player in the market, that it should find a niche to support a 'catch-up' type strategy and from there, grow with the industry. To do this, the firm has to build competencies and deal with some key problem areas. These are discussed in the following chapter.



## Chapter Five

### Recommendations and conclusions for the company

#### 5.1 Introduction

This chapter is very much a follow on from chapter four. In chapter four, broad strategies were outlined. In this chapter, those broad strategies are build on through subjective recommendations in light of the research of chapter three and the analysis of chapter four. The recommendations made guide the company to developing its strengths and combating weaknesses, such as its inefficient development of new products. Through these suggestions, the company should keep focus on the key factors for success discussed previously. Such focused recommendations will form a basis for developing core competencies that are in line with achieving the grand strategies and that will assist D.A.M in competing.

#### 5.2 P.E.S.T

The P.E.S.T analysis highlighted a few points that D.A.M should address in their strategy.

- There is a chance that the law may, sometime in the future, demand that bull bars are airbag compatible. Duys should consider pre-empting this by developing airbag tested bars and be ahead of the competition. Such meaningful differentiation may give them the edge.
- HIV / AIDS is a massive threat, especially considering that on the production side, D.A.M is very reliant on individuals' knowledge in getting error free products through their line. To combat this problem, D.A.M should look at ways to educate their workers about HIV and at the same time, use the R & D department to

develop jigs that can be used by any unskilled labourer and allow for a flawless product.

In an effort to actually combat the disease, it has been heard of for companies to ask its full staff contingent to be tested for HIV. Although it is illegal to demand it, companies have successfully had their staff tested by management supporting the initiative and being tested as well (completely voluntarily). In most cases, the test results are not allocated to an individual, but rather used to give a tally of the total infected persons. The company can then build strategy with an understanding of the percentage of its staff that is going to be requiring more and more sick leave. It can also build into the budgets, the cost of administering medication such as anti-retrovirals, if it feels the cost can be born by the business and that this cost would be outweighed by the alternative. Many companies administer simple things like multi vitamins to their staff to keep their immune systems strong.

Duys might consider such an initiative.

### 5.3 Porter's five forces

From Porter's model (1985) for defining the competitive environment, recommendations are made as to ways in which the company can increase its competitiveness and also defend itself against existing and would-be competitors

#### 5.3.1 Suppliers

It was noted in the Five Forces Analysis that suppliers are considered to be a strong force. Duys might considering purchasing through the group, instead of

purchasing at division level, to make use of economies of scale in their buying. Emphasis should also be put on developing relationships with suppliers, so that the strength of these relationships might give some advantage against the competition.

### 5.3.2 Buyers

Buyers were also rated as a strong force due to the manner in which dealers collectively negotiate prices. Focus should be given to the key factors for success in each market segment so that the company might 'delight' its customers in a meaningful way and thus increase market share.

D.A.M might also consider looking at alternatives to the existing distribution channels, as there is evidence that this approach has worked for Maxe, their competitor.

An important suggestion is that D.A.M focus on other clients other than Toyota. Historically, Toyota has been Duys' main client, but having 'all eggs in one basket' is a major reason why D.A.M has had to be created as Toyota shifts its own structure.

### 5.3.3 New entrants

A medium threat. The building of a strong brand, establishing country-wide distribution, a far reaching and effective sales force, a large range and economies of scale, are all factors which will assist D.A.M both in competing and in building barriers against possible new entrants.

#### 5.3.4 Levels of existing rivalry

It is evident that the distribution channels are dominated by the market leaders. D.A.M must establish channels to compete and if it can do this more effectively than the competition, it is likely to steal large market share.

As the existing competitions' missions seem to be aligning, it would be suggested that D.A.M look for ways to creatively differentiate itself from them.

#### 5.4 Key factors for success

Suggestions according the key factors for success will ensure that the strategy focuses on issues that are important to the customers and important to the company's competitive ability. Each segment has its own needs and desires thus, constructive suggestions need to be aimed at each segment.

##### 5.4.1 Off road / 4 X 4 segment

This segment demands that D.A.M provide good quality products. Quality in this case is both aesthetic and build quality. The off-roaders are looking for a decent range. They are looking for companies that can offer innovative features. This segment is willing to pay but they want quality, extra features and branded items in return. With this in mind, Duys must be fast in getting new products to the market. R & D must come up with innovative features, like attachable fishing rod holders.

##### 5.4.2 Carbon steel segment

Price is the order of the day in this segment. To compete, Duys must not go overboard on the offering and they must aim for economies of scale wherever possible to

keep costs to a minimum. Range is important and so is fashion to a slightly lesser degree. Delivery is a major key factor for success. Duys' aim to build a store that will allow them to hold stock so that they can offer overnight delivery on popular items, is a necessity. Thought should also be given to holding a minimum amount of items that are not in the popular range, so that the buyers know they can get any product in a Duys catalogue and not have to wait. This will build confidence in D.A.M and will ensure its success in this segment.

#### 5.4.3 Stainless steel segment

This is a fashion sensitive segment. Branding is important, but aesthetic quality is no doubt the most important. As with most other fashion type items, consumers want a range to choose from so they can be different. Duys is way behind the market leader with range and needs to concentrate heavily on this if it is to feature in this segment.

To catch up with its range on new vehicles, D.A.M needs to be quicker than the competition in getting from the prototype stage to delivery.

#### 5.5 Dominant industry characteristics

Incentives play a large role overall, both above and below board. Duys must ensure that their incentives are meaningful and better than the competition, without making it the focus of the 'war'. Otherwise, it could end up driving costs upwards.

#### 5.6 Driving forces

Changing distribution channels is a key feature in this regard. D.A.M must ensure that if others are

circumventing the bureaucratic channels and going direct, to make higher profits, that they don't get left behind and rather join the innovator early on for an advantage over the rest.

### 5.7 Customer analysis

Due to the cosmetic nature of stainless steel products, D.A.M must position itself as the fashion leader. At the moment, this is Maxe and that is why they have the largest market share.

In the carbon steel market, the market leader is B.T.M. They are also the price leader and are located for immediate delivery. These factors tie in with what the customers stated as their key demands. Duys must therefore establish a means to get the product quickly to its customers and also to cut costs wherever possible.

In the 4 X 4 segment, the branded items with good quality lead. ARB and TJM brand themselves worldwide, with every 4 X 4 event possible, selling their products as lifestyle accessories. They are by far the market leaders in this segment. NudgeM is way behind as it offers a cheap, low quality product. Duys must thus actively market itself in South Africa. It already has an excellent reputation for quality and should capitalise on that.

Range is important in all segments, so, as was said before, Duys must aid its R & D department in meaningful ways, such as with sufficient budget and sufficient staff, that it might build a competitive range for all segments.

With the dealership customers, it is noteworthy that they sell to their customers by using sales staff. Incentivising these people will aid Duys in building market share. Other assistance they can give the sales people at dealership level, is adequate sales material. Ideally, it should be printed for the dealerships and digital for the 4 X 4 clients, that are more high-tech.

All D.A.M's customers are looking for a one-stop accessories shop. Having items across various ranges will assist D.A.M in differentiating itself.

Lastly, the products have to be sold. Therefore, an essential, is having a well organised and motivated sales team with good reach.

## 5.8 Competitor analysis

Suggestions flowing from the competitor analysis are reliant on the tools that were used in chapter four to compare the different competitors. The reason for this, is so that areas where the market leaders are doing well, can be used for benchmarking purposes.

### 5.8.1 Price-quality matrixes

The price quality matrixes showed the level of pricing where the market leaders are positioned and the level of quality they are offering. Based on this mix, we are able to deduct what is important to the majority of that segment and compare these requirements to Duys' offering and thus make recommendations as to what could be changed.

#### a. Carbon steel segment

It is evident that B.T.M has the lions share of this market. If one view the matrix in chapter two, it is evident that they have a lower price offering and interestingly, a lower quality offering than Duys. Duys should relook at its offering to come in line with the needs of the market.

#### b. Stainless steel segment

Aesthetic quality, not build quality is giving Maxe the main share of the market (up to 90%). It also shows that Maxe is charging higher prices and getting away with it. This shows that Duys can charge a premium in this segment if it is offering the fashion. The strategic group map in the next section will highlight some other issues to focus on for this segment.

#### c. 4 X 4 segment

Again, the leaders are charging higher prices than Duys. Their quality is similar and sometimes even lower than that of Duys but still very high. The strategic group map will highlight other strengths that are giving them their share of the market.

### 5.9 Strategic group mapping

It will be recalled that strategic group maps were done per segment due to the fact that each segment has different competitors. Hence, recommendations flowing from this tool are done per segment.

#### 5.9.1 Carbon steel segment

Low price and this time delivery are mapped, showing that B.T.M and other strong players have excellent delivery and low price as their strengths. Duys is lagging behind



in both areas. Hence, cost efficiency is again the order of the day in this segment and methods of getting product to the customer quickly.

#### 5.9.2 Stainless steel segment

This time 'range' is mapped against 'speed from prototype stage to market'. Maxe scores high on both, exhibiting the importance of these factors in pleasing the stainless segment. Duys scores poorly in both regards. R & D is again the department that can assist in getting new product quickly to the market and in developing a range.

#### 5.9.3 4 X 4 segment

Here, brand equity is mapped and the imports score higher than Duys by a long way. Again, quality is mapped but here Duys earns a similar score to the competition. By matter of elimination, it is evident that Duys must build their brand to win share in this market. To do that, budget must be allocated to the marketing department.

#### 5.10 Rating competitors for ability to reach K.F.S

In rating the competitors in each segment, for their ability to perform in the key success areas previously defined for each segment, it is found that, in the stainless segment, Maxe (market leader) scores very highly on range, aesthetic quality, delivery, time from prototype to market and branding. In every case, higher than Duys. This creates a list of areas for Duys to focus on and it is evident from all the areas of analysis above, that these key issues are highlighted repetitively.

In the carbon steel segment, B.T.M rates as the best in ability to come in at a low price and to deliver quickly.

They also have the main market share in this segment. This repeats the findings that price and delivery will gain D.A.M market share in this segment.

In the 4 X 4 segment, the imports score highly in aesthetic quality, build quality and branding. Prototype development is also a strength that they have that Duys is lacking. Understanding the importance of these is key to Duys' strategy.

#### SUGGESTIONS RESULTING FROM INTERNAL ANALYSIS

The internal analysis in chapter four went through stages, from a broad analysis of the company's basic resources to the utilisation of specific tools such as a S.W.O.T analysis. This section focuses on each of those internal analyses and highlights areas that can be developed and areas where the company is doing well and should maintain those standards.

##### 5.11 Physical resources

It was noted as a strength that Duys has, to achieve the impossible with old technology, however, time should not be underestimated as a precious resource when it is a race to become world class and to get up there with the market leaders. Considering this, there is a need to look at the antiquated equipment as ask, how much is it costing in terms of growth and lost business to be continually 'making a plan'? If the answer is that the difference is not crucial, then Duys' strength is well founded. However, management noted that the new bending equipment would lead to far fewer faults. They also noted that the purchase would make Duys the technology leaders in this area, an important place to be as the shape of the market changes and the firms fight to be the

fashion leader (stainless segment), price leader (carbon segment) or technology leader (4 x 4 segment).

Likewise, purchase of the press-brake equipment (R1.4M) will give Duys advantage in the 4 X 4 integrated bumper business and an upgrade to electro-polishing (R0.5M) will allow D.A.M to produce product equivalent to Maxe, within equivalent time and cost.

After the pros and cons of purchasing new equipment have been done, from a strategic viewpoint, it becomes a capital budgeting decision, which is outside the scope of this study.

D.A.M choose to pickle and phosphate their carbon steel products so they do not rust. This is not done by the competition, so it puts Duys at a cost disadvantage, in a market, which is exceptionally price sensitive. Hence, the suggestion would be to either abandon the pickle and phosphate stage or to use it as a marketing tool to increase sales by creating some level of differentiation. Shout about the fact that Duys products are pickled and phosphated and the competition's is not and shout about the benefits thereof. If the market does not respond favourably, then the answer may well be to sell product of a similar standard to that of the market leaders.

#### 5.12 Human resources - technical people

There seems to be a lack of skills at certain levels of production and the existing employees are not apparently capable of moving up to fill the gap. Serious thought should be given to employing some technically trained people for production so as to take some load off R & D.

Also, if the company is going to invest in new equipment, that requires a certain skill level to operate, they should not ignore the costs of employing such an individual in their decision to purchase.

Lastly, it was noted that certain levels of staff within the production side, are resistant to change. They are not responding to the opportunities provided by management through training and other continuous improvement initiatives. Management must become stricter in setting what is unacceptable behaviour and deal with it when it presents itself.

#### 5.13 Focusing on meaningful segments

The customer is generally the correct place to start when deciding how an organisation may be improved for the better. The preceding chapters showed that D.A.M has three very different, attractive segments to target. Since the company is at the beginning of a growth phase and taking into account the positioning of these segments in the portfolio matrix, it would be advisable that focus be given to the 4 X 4 segment to start. This segment is likely to be, initially, the most profitable and is more easily reached due to D.A.M's current focus on quality versus price.

At the same time, focus must be given to building a product range for the stainless segment. Concurrently creating brochures and other sales material to push that growing range. This is likely to take some time to develop and emphasis should be placed on establishing effective systems for product development so that it does not become a prohibitively expensive affair in the long run.

The carbon segment can be maintained as it is and sales will likely improve if the issue of delivery is ironed out. From that point, the company must concentrate on bringing down its costs and consider cutting some of the added value to these products, so that it can compete with the market leaders like B.T.M. It is understandable that there may be resistance to doing this as would Ferrari no doubt resent building to the quality of a Citi Golf. However, it must be recognised that if you are going to cater for the customer who is looking for a cheap run-around vehicle and who is not interested in the performance of a Ferrari, that to compete, Ferrari would have to match Golf prices. To do this, it has to come to a similar product offering. The same applies to Duys.

**5.14 Suggestions from the management and leadership audit**  
The management audit was broken up into the functional tasks of management. This section examines suggestions as to how each of these tasks might be improved.

#### **5.14.1 Planning**

D.C.M is a very relationship orientated company. They have been commended by their various customers for excellent performance and have been on Toyota's 'top 50 suppliers' list for over 20 years now (no easy task). Over time, it is evident that Duys' suppliers have increased their prices and yet Duys, as they should, have always looked to themselves, to squeeze their processes, becoming more and more efficient to save the customer from an increase. This aversion to passing increases on to the customer has, however, lead to D.C.M's pricing not being enough to always cover overheads, such that there was a loss in 2001 and only a breakeven in 2002. Thus,

whilst D.C.M must run a tight ship to remain exceptionally competitive in the areas important to their different customers, they must make sufficient margins.

Care must, however, be given to maintain a balance. Particularly in the aftermarket, where D.A.M is aware that the customers pay more than before in the O.E. business, there may be an inclination to go the other way and aim for higher margins than are suitable to the segment. Particularly with the carbon steel segment, D.A.M will have to remain cost conscious. To achieve this, it can be repeated that the right product offering must be made.

Through the development of what-if scenarios, D.A.M should develop back-up plans at the same time as it develops original plans, changing these in an emergent fashion, as it does with the original plan.

There is a need to plan adequately for new business. Although it makes no business sense to turn away new business, proper planning must be done prior to acceptance. This is crucial, so that there is full awareness of the required resources, their ability to handle the new job, the change in processes that will have to happen and a full understanding of the costs involved, such that the margin at the end of the day is adequate.

#### 5.14.2 Organising

There is evidently a problem at level 2. The supervisors are not performing subsequent to ongoing training and this situation should be unacceptable if it continues and perpetuates itself. There is a need to pinpoint the

reason for this ineffectiveness and to deal with the reason. If that reason is an attitude problem, then one needs to look at the reason for the attitude and determine whether there can be something done by management to rectify the problem. If not, it would be better to terminate the employ of the individuals that are not performing as they are holding back the growth of the business.

It is clear that Duys is aiming to and becoming a world class organisation and that this only happens through change and growth. Hence, it is critical that the individual companies become change lovers and that they accelerate the change process and even attempt to lead it. To do this, all those within the organisation must be change lovers too. Other organisations also change, but they do it slowly and behind everyone else. These organisations will never be world class players.

The same is evident with the level two managers in the giving of authority. Responsibility given without authority will be a waste. But giving authority without demanding accountability in return is equally a waste. There is a sense that, particularly at level 2, there is a lack of this accountability and that top management is too soft in demanding it.

It would possibly be a good idea to link pay to productivity throughout the organisation. This should be done in a meaningful, easily understandable and measurable way. Such that those that perform are well rewarded for reaching and exceeding targets within areas of their work where they are in control. It is suggested that profit sharing is too complex for a level 1

labourer, and even a level 2, to understand. Profit sharing may be misunderstood, creating the possibility for bad feelings amongst the workers if they receive less than they thought they would get. Reward should be linked to their individual performances, making sure that the tasks measured are relevant. Relevance relates to both the organisation's overall success and it means the task / outcome being measured must be controllable by the individual being measured.

#### 5.14.3 Budgeting

The Duys Group achieves its success from having independent divisions. It seems that budgeting goes through head office and that D.A.M does not do its own formal budgeting. D.A.M is able to get money for its areas of focus through justification of the expenditures to head office. This is an important task as it forces the division to think about where finances can best be spent. It is, however, crucial that D.A.M have a formal, ongoing, budgeting process, such that it ranks its needs in order of priority and allocates budget to those areas. The budgeting process, in implementation, will have to take care to focus limited resources where they will return greatest reward. Also, management must be wary of allocating either too much or too little funding to a particular area, as too much is a waste and too little results in ineffectiveness.

#### 5.14.4 Staffing

Being separate from the division, the central H.R office needs to be made aware of the specific needs of the division. Clear communication must be established and systems agreed, for the dealing of people issues.



Also, middle management / line managers must be sufficiently trained to deal with people issues that are likely to arise amongst their sub-ordinates.

H.R needs to address the skills shortage in production that is keeping the skilled staff from the R & D department away from developing new products.

Training needs to be designed such that those who do not grow to the required levels are placed elsewhere in the organisation, where their skills are sufficient. The other alternative is to let them go.

#### 5.15 Suggestions from the marketing audit

It is evident that the company does not track the market for growth and other such indicators. Market information is a necessity if D.A.M is to aim at the right segments, meet the market's needs in a meaningful way, to determine when to spend on growth and to match their life stage with the industry's life stage.

Selling is crucial in this business, as discussed, the company plans to outsource this function but to manage it with their own marketing office. The marketing office will be making promises that the agents will be forwarding to the customers (retailers), who, in turn are making promises to their customers. There is thus a crucial need for the company to be able to meet the delivery, price and quality promises that the marketing department is making.

It came up that the marketing manager spends up to 80% of his time involved in sorting out production issues. If the marketing manager is involved in production, no doubt

it is because he is concerned that the promises he makes to customers will not otherwise be fulfilled. This situation must be rectified so that he can concentrate on sales and so that the production department can meet his needs.

Crucial will be that the company stands behind the marketing effort with sufficient budget to chase the sales. It seems that the competition is beating Duys due to a well-established sales force. Hence, the sooner Duys establishes a competitive force with a competitive offering, the better.

Lastly, it was noted that, at dealership level, it is the vehicle salesperson that sells the accessories to their clients, so any sales plan must take these people into account as being the decision-maker, as to whether or not the Duys product is purchased. Hence the suggestion that these people be adequately incentivised to push Duys' products over those of the competition.

#### 5.16 Suggestions from the production and R & D audit

R & D spend too much time on production issues. Jigs made at the skilled R & D level are producing perfect product when used by the R & D staff, but are rendering faulty products at the production stage. One of two things has to happen. Either Duys must employ more skilled labour on the shop floor - very expensive. Or, systems must be developed to have new products properly planned for and the designs fully-finished before they are sent through to production. The jigs must be fool proof.

The reason the second option has not been done seems to be because of a lack of time. A necessity to rush from late job to late job. Somewhere along the line, the system need to be developed so that it eases the pressure on R & D and the result should be less waste and less of a need to rework product.

Every job should not be an R & D job; else Duys is no better than a large version of the 'one man shows' discussed in the competitor analysis.

Stockouts was identified as a problem that is leading to loss of business. The building of a store should solve this.

#### 5.17 Intangible resources and brand equity

It is evident that Duys has a good name in engineering circles, but they have never actively pursued a brand building strategy. Considering the importance placed on brand in the 4 X 4 and stainless steel components segments, such a strategy should actively be pursued by the marketing department. This should be done both at product and company level.

#### 5.18 Mission, goals and strategy

Have a clear mission statement, goals and objectives and communicate these to all that are working for the division, such that everyone knows the direction the company is headed.

In addition to this, have a written down strategy for competing that will add to the guidance that management can give the division, as to where it is headed and how it plans to get there.

Although analysis of the environment and customer needs is done every six months, it could be suggested that this is not often enough, particularly as the organisation is going through so much change and shifting of focuses. The environment has been noted as being highly competitive and thus it is crucial that D.A.M be constantly on top of these changes in the competitive environment and in customer needs, such that as opportunities present themselves, D.A.M might be first to grab them. Or equally, first to address threats that appear.

Part of the current strategy is to build a decent product range. Management is aware that there are problems facing them in this regard but have not made plans to deal with specifics, like the burden of non-developmental activities placed on their R & D department due to inefficiencies at production level. Considering the fantastic idea generating abilities of the organisation and their experience at problem solving and process re-engineering, it would be highly recommended that this weakness in R & D be given top priority.

The strategy is to develop brochures as they develop the range. This is critical and should be done as fast as possible as the dealerships are very reliant on having adequate selling tools from their suppliers.

With regards to D.A.M's plan to outsource sales and distribution, it was noted that there might be a lack of sufficient effort on the part of the agents to sell Duys products. On the flip side, there is the benefit of quickly getting to the stage that the company has countrywide reach at a reasonable cost. It will have to

be looked at very carefully to adequately incentivise the chosen agent to get the desired level of sales. When this cost is factored in, it may well show that doing it in-house will be similar in cost, with the added benefit of control.

A specific suggestion with regards to finding an agent would be to consider the company Autotec. It will be recalled that Autotec was a company interviewed for information gathering purposes, in chapter three. In the interview, it was evident that they have a countrywide reach and are dealing in a non-competitive product to Duys, but to the same customers. It was also expressed by one of the partners, that their products will not be desired, by their clients, for much longer. The reason is that they are more expensive than their competition and although dealerships are currently prepared to pay extra for the quality because they can add a margin, this will soon change. When new cars in all ranges and classes start to come out with motorplans / freeway plans as a standard warranty, the dealerships will shift to cheaper products to save the company money. The result is that Autotec is likely to be looking for a strategic way to utilise their current marketing abilities and established relationships, outside of their current product range. They might be a good fit for D.A.M to consider.

#### **5.19 Culture**

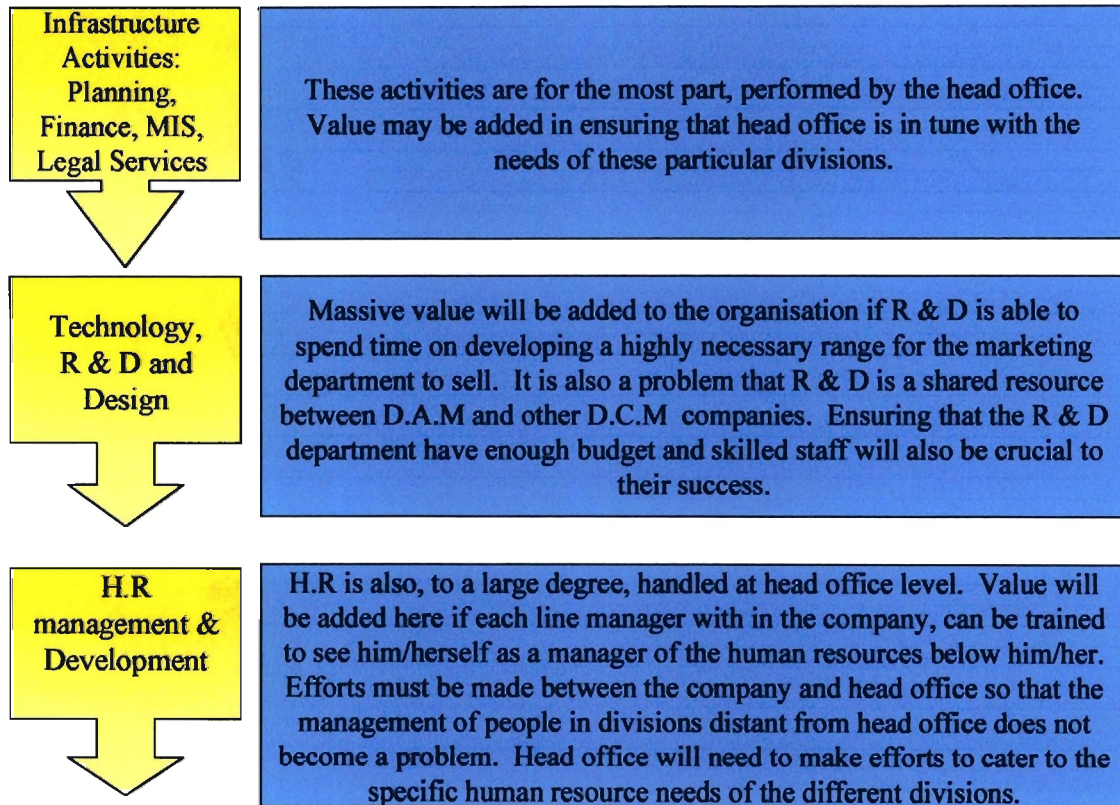
It is obvious that D.C.M has a strong culture that has been built over time. This culture is embodied in the team related work design and the continual emphasis on innovation and continuous improvement. It is important that creativity continue to be fostered and recognised.

Although D.C.M has a strong culture, D.A.M will be have to develop its own culture over time but it is important that this culture be cohesive with the D.C.M culture as both organisations will necessarily work tightly together. It is also critical that head office recognise that D.C.M's culture is different to the rest of the group and it is critical, likewise, that D.C.M recognise that D.A.M's culture will be different to its own. Culture is a specific phenomenon that holds the organisation together and it is important that it be nurtured and that values and ideals in that system not be easily tampered with or hurt.

#### 5.20 Value Chain

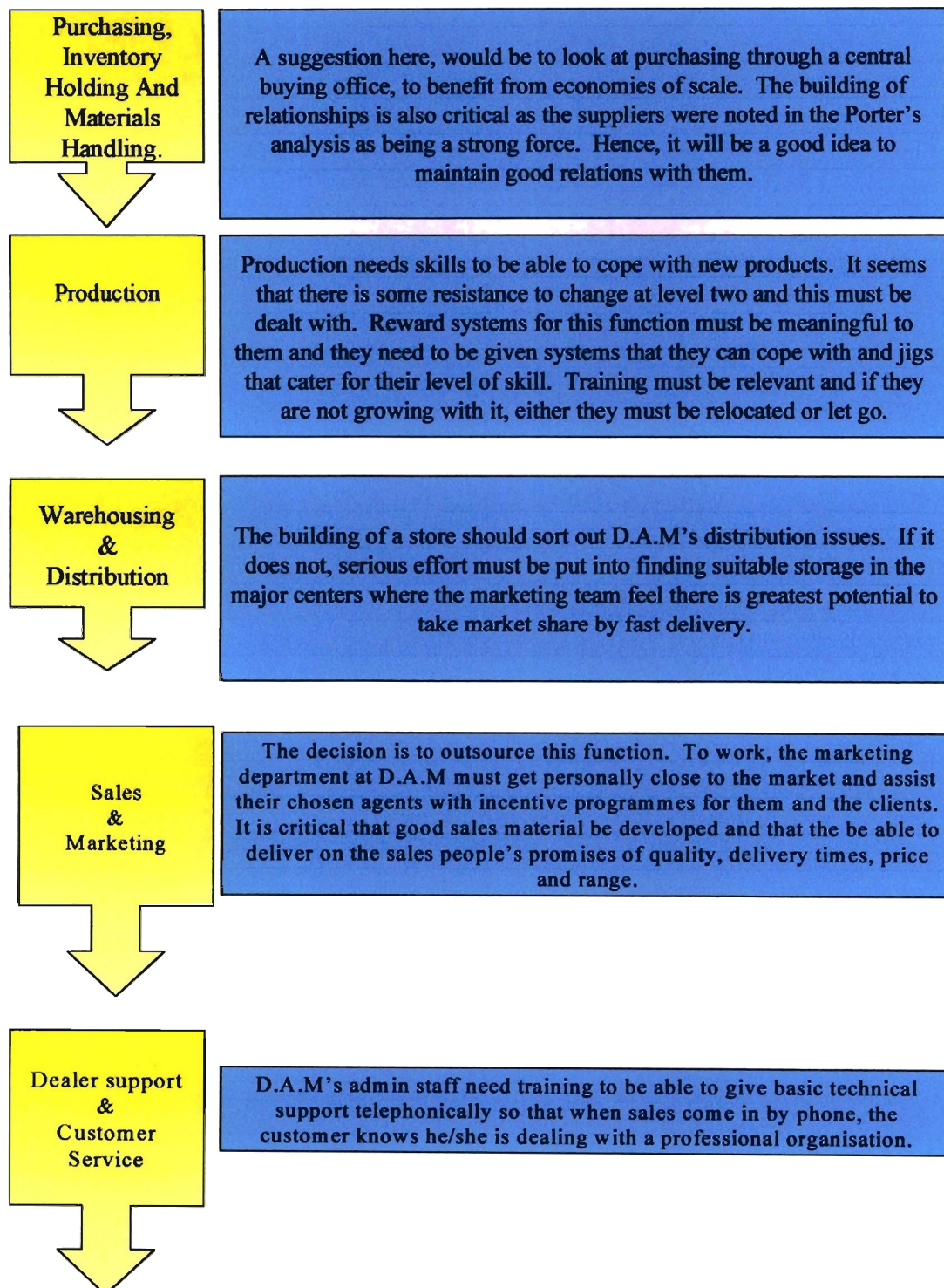
As per the value chain analysis in the previous chapter, the company's activities are broken into support and primary activities and each of these are now looked at in terms of where additional value may be added in each activity and in the linkages between them.

### 5.20.1 Support activities of D.A.M





### 5.20.2 Primary activities of D.A.M





### 5.21 Core competencies

It is suggested that the company build on its core competencies by expanding its relationship with the Toyota factory, to the dealership level and indeed to other manufacturers and dealers.

In the segments that demand quality, Duys should emphasise its long-standing reputation to supply top quality items.

With regards to the respected name, Duys should build on that and start to publicise itself so that the brand can more actively work for the company.

Lastly, the company needs to look carefully at the key factors for success in the different segments and develop competencies in those areas that can be developed into significant levels of competitive advantage.

As a lean organisation, it is critical that Duys perform all the time as there is nothing / no one to take up the slack.

### 5.22 S.W.O.T

The S.W.O.T analysis shows D.A.M to be facing a similar number of opportunities and threats. It was also characterised by a majority of weaknesses. Thus, according to the T.O.W.S matrix discussed in chapter two, D.A.M should aim for stability, securing its place in the market and dealing with its weaknesses, such that it might put itself onto a growth path in the future.

Looking at some specifics, upgrading on the equipment will negate a large amount of the negative impact that

the internal aspects of the firm are likely to have when faced both with opportunities and threats. The weighted S.W.O.T shows that this old equipment is likely to negatively affect the firm's prospects in both opportunity and threat situations.

Likewise is the fact that R & D is a shared resource and the fact that the R & D department spends so much time in the production side.

It is likely that an upgrade on equipment will serve to assist in the R & D dilemma. New equipment might also see to it that the production staff does not need as much assistance from R & D all the time.

Duys' ability to achieve the impossible is a plus in that it saves them costs but they should be wary of relying on the 'make plan' mentality to see them through every situation and consider planning at some stage to budget for equipment that might give them the edge in taking some of the opportunities presented.

Poor production planning goes hand in hand with many of the company's other weaknesses and tends to exacerbate these situations to their detriment when faced with threatening situations like trying to address a blurred product focus, develop new products, consider alternative / composite products or when faced with a breakdown.

Holding stock will prevent the stockout problem that seems to be an issue in attracting a good sales agency.

Powder-coating is currently a one colour process. This is a negative from an innovation point of view,

especially in the recreation market and the 4 X 4 segment. A possible solution would be to approach a body shop in the area that has quality spray painting facilities. This would save the cost of investing in further equipment and will leave painting to an experienced company that can match any colour the marketing team wishes to try.

Duys' strong relationships stands out amongst their strengths and the company must do all they can to build on these and to utilise that influence to push their products into the aftermarket. Since these relationships refer almost solely to Toyota, effort should also be put into extending these relationships to the likes of Mitsubishi, Isuzu, Nissan and Ford.

Lastly, a seemingly obvious suggestion is that the company take the list of weaknesses, prioritise them, using the weighting of importance with regards to their individual impact on environmental situations and combat those weaknesses. With the strengths, build on them and turn them into competitive advantages by doing them significantly better than the competition.

#### ACHIEVING THE GRAND STRATEGIES

In this section, the grand strategies developed in chapter four, are re-examined. Having already tested them for suitability at the end of chapter three, specific suggestions are now able to be made, as to how the firm might follow the said direction.

#### 5.23 Comments on the the 'success within segments matrix'

Three 'success within segments matrixes' were used, one for each segment, crossing key factors for success in

each segment, with the competitive scope of the organisation for that segment.

The resulting grand strategy for the carbon steel products segment was cost leadership. In this regard, it is again pointed out that Duys is offering a better product than is demanded by the majority of the market. Cost cutting strategies should be looked at, including group purchasing and possibly manufacturing to a lower spec. Duys should utilise its experience with economies of scale producing, that it has from years of producing for the Toyota factory, and attempt to compete with the leaders like B.T.M. The alternative is to stay as they are with regards to price positioning but be happy with a much smaller share of the market.

The resulting grand strategy for the stainless steel segment was broad differentiation. Benchmarking itself against Maxe as the leader, Duys learns that meaningful differentiation would include a large range, speedy delivery, incentives and attractive products. Also notable is the speed with which Maxe develops new products as new vehicles are released. This is important to the dealers that want to sell the new vehicles; having accessories to do so is a major plus for them.

The 4 X 4 segment, mapped in the 'success within segments matrix', reveals that a grand strategy of focused differentiation is the ideal way to go. Price is not a concern for the clients of the specialist 4 X 4 center, so good margins can be made, but quality is essential. Duys could easily start to focus on this segment, as they are already quality leaders. Important as a differentiator in this segment is branding. Duys needs

to associate itself with 4 X 4 events, so that it can also position itself as a supplier of 'lifestyle' accessories, as the successful importers are doing. Lastly, innovative designs and offering value added features like the attachable fishing rod holder is the sort of thing this segment is looking for.

#### **5.24 Comments on the the market options matrix by Ansoff**

This matrix suggested a two-pronged approach. Penetrate the market with existing products, while developing products as fast as possible to catch up with the market leaders. To do this, two things must happen. Firstly, the sales and marketing department must get into the field and start selling the existing range. Developing relationships with key customers now, while building a range will only serve to assist the company as relationships and the range are built. Incentives must be looked at and a distribution agency with sales reps around South Africa must be organised.

Product development is an issue that has been discussed exhaustively - it is reliant on R & D and a creative team. Sorting out the problems with the R & D department is critical if this strategy is to be successful.

#### **5.25 Comments on the expansion method matrix**

This matrix said that, if the company were to expand within South Africa, without merging, acquiring or entering into another external type relationship, then the resultant strategic direction would be to develop internally. This fits in with what was said about the S.W.O.T analysis. The company needs to deal with its weaknesses, and build core competencies that will allow it to compete more successfully. These strengths and

weaknesses were listed in the S.W.O.T section. This matrix suggests that the firm must go through a process of working through those. The key word here is process. Each weakness will take work to rectify and it takes time to build strengths into core competencies. Having a formal plan that recognises these as issues though, is the first step to building a strong organisation.

#### **5.26 Comments on the resource based options**

These strategic options were explained in the theory section (chapter two) but were left out of chapter four, as they relate very much to specific ways to address the grand strategies. Hence, these options are elaborated on here.

As per the theory, there are three such options. For D.A.M, it will depend on the segment it is chasing, as to the 'resource based option' that is most applicable. For example, *cost reduction options* aim at turning the firm into a competitor that competes on cost effectiveness. This is not necessarily only important in the carbon steel product segment, where price is the key success factor, but it is certainly the area where it is of primary importance. It once again confirms that D.A.M should look at areas where it may be adding too much value, that is not demanded by the market and it should look at ways of getting the product to the customer (dealership) in a more direct manner so as to save on the final cost.

Focusing on economies of scale even in batch type runs will be crucial to success with this segment.

In line with the resource based view, it would be advisable that D.A.M use the existing strength of the Duys name to start actively branding its products, both building and capitalising on this reputation. The reputation for quality is likely to take D.A.M further in the 4 X 4 segment than the other two (which have different focuses price and fashion).

With regard to *value chain options*, D.A.M must seriously look at the best way of getting the product to its customers, weighing up the cost of doing it in-house but maintaining control versus saving the cost and giving the focus to an outsider.

#### SUITABILITY

Having discussed the various grand strategies that were developed through slotting internal and external factors into various matrixes, the next step is to discuss the matrixes that assessed the suitability of those grand strategies. It will be recalled that the suitability analysis showed the grand strategies to fitting with the internal and external factors discussed. Out of that discussion, however, flowed some issues that specific strategies and implementation of the grand strategies will have to take into account. This is elaborated on below.

#### 5.27 Comments on the life cycle matrix

This matrix placed the automotive components industry as being in an uncertain growth phase. D.A.M was rated as having a tenable position in that environment. The resulting strategy was that the firm should find and hold a niche and play catch-up so as to grow with the rest of the industry. As was discussed in the previous chapter,

this supports the grand strategies previously chosen and suggests that they are suitable to D.A.M. Specific ways to follow this suggestion would be to use the 4 X 4 segment as the niche, and catching up with regards to range offering and ability to deliver on time in the carbon and stainless steel segments.

#### 5.28 Positioning

In chapter four, it was briefly noted that D.A.M is positioning itself similarly in each of its segments: as the quality provider.

How unique are the core competencies that D.A.M has for succeeding in each segment? In the carbon steel segment, it is not likely that Duys' focus on quality will enable it to grow sufficiently, such that it can take large market share from other competitors. The quality competence will however stand it is good stead to compete long term in the 4 X 4 segment. It can be said therefore, that without focusing separate strategies on the stainless and the carbon steel segments, D.A.M is not likely to have long-term success in these areas. However, if it capitalises on its ability to do highly cost effective runs as it has in the past, for first tier supply to Toyota, then it will most likely break through in the carbon steel segment. And, if it successfully develops its R & D department such that it can build an attractive range / offering in stainless steel, at competitive prices, then it has a chance in this market too. As D.A.M and others build a range to compete with the likes of Maxe, the focus of the customer may lean towards price, as they no longer battle with options to choose from.



### 5.29 Portfolio analysis

This matrix positioned the carbon steel segment as a question mark since it is questionable whether Duys will successfully compete with B.T.M if they are not prepared to fight on the basis of price.

The stainless steel segment is also a question mark as it will be dependent on range and delivery issues as to whether it can become a star.

The 4 X 4 segment is somewhat of a cash cow but even this segment has a foot and a half in the question mark block because it is such a new segment for Duys to be focusing on.

D.A.M should initially consider focusing on the 4 X 4 segment to build some reserves that can be used to fund the building of a range for the stainless segment and on equipment that will allow the cost effective production of carbon steel items.

### 5.30 Summary

It is important that, that as this study draws to a close, that the beginning be revisited and the aims of the organisation re-examined. Although D.A.M is lacking its own mission statement, the general direction set by the umbrella organisation can be used as a substitute. That is, to grow and become world class. There is a sense that this will not happen if the organisation does not embrace and even seek out change. Further, it is evident that although relationships are of key importance, the organisation needs to develop a slightly more ruthless attitude to performance. Reward good performance, loyalty and build relationships but demand

accountability, performance and growth. This last section of the strategy brought together the firm's pluses and minuses and showed that if D.A.M can negate its weaknesses and build on its strengths, it will be able to compete in all three segments discussed.

This study has gone through the steps of external and internal analysis, the development of strategic options and the assessment of those options for suitability. The result is, this last chapter, a list of suggestions, recommendations and options for the management of D.A.M to consider as they formulate their own way forward in tackling the South African automotive aftermarket. It is hoped that this study is of some use in that regard.

# Appendix 1

Honeydew Toyota + RV Center  
Marius Heydenreich 011 795 3743

1. Do you know the Duys Brand?

Known them for 3 years as a customer.

2. Is Brand name important?

Yes, to make distinction between products, I feel it is of importance to customers.

3. What could Duys be doing to help you sell more product and in so doing sell more themselves?

Alan is doing a lot, he sees us once a week. Create more awareness, advertising. Bottom line is when they can supply - this is Duys' biggest downfall. Customers are often impulse buyers - they want to spend it then and there - they don't want to wait.

I am buying bulk from overseas so I get really good discounts. Better margins than if I buy from Duys. If I could buy at the same price from local suppliers I would buy locally.

Need to set a standard and be loyal to customers - not cut out the dealers and sell direct to public at dealers cost price.

4. Do Duys have a large enough range?

No - definitely not.

5. Does Duys provide enough sales material?

Yes.

6. What do you sell the most - mild steel (painted) or stainless?

Varies dealer to dealer - we sell more powder coated from Duys. More stainless from Maxe. Our biggest seller is powder coated, but it is a mix. Maxe delivers faster. Maxe has infrastructure that we fax order, don't even need to call and it is here next day.

7. Who's products do you sell the most of?

We do Haymen & Reese Tow bars. We do Boccar and ARB and TJM.

8. What can you tell me about incentive systems and how big a role do they play?

Always a good thing to guys who sell a big range. There must be something in it for the salesperson, even if it is only recognition.

9. What are Duys' shortfalls?

Delivery, stock availability, awareness of market - you can't make something and then discontinue just because it doesn't sell for one month - you have to carry a basic line of stock. Need to be proactive, not just copy others.

10. What are the main issues - price or differentiation of sorts - and if differentiation, on what basis?

When guys are buying expensive vehicles, the extra for the bulbar is not the biggest issue - style is very important, as long as the price is reasonably competitive.

We, however, go on price as long as we are able to give a customer something that he likes, it has to be able to sell. It is very important to have product for new vehicles - these can be developed in conjunction with dealers - get product before vehicle is launched - Maxe does this - stay in touch with dealers to do this.

11. Any comments on the business itself and what it takes to be successful?

We generally sell about 60 to 70 bull bars a month - mostly bumper replacement, Tow bars about 50-60/mth.

When new vehicle came out (Prado) we approach suppliers but they could not help so we went to Aus.

Creating awareness is crucial - get a strong brand - pinpoint the market and focus on it. Duys seems to be very spread out.

## Midway Toyota

Andre van der Walt 011 907 1285

1. Do you know the Duys Brand?

Dealing with Duys a long time - since I have been - 7 years

2. Is Brand name important?

No.

3. What could Duys be doing to help you sell more product and in so doing sell more themselves?

Delivery is critical, when Alan had warehousing it worked. We need same day delivery for customers who's vehicle must go out. They come in order, we have to get vehicle out by 5pm. They are anxious to get it.

4. Do Duys have a large enough range?

Yes, they have a large enough range.

5. Does Duys provide enough sales material?

Yes, Alan is on the ball.

6. What do you sell the most - mild steel (painted) or stainless?

Mostly mild steel, painted black.

7. Who's products do you sell the most of?

Tow bars - BTM, Towmaster - stock is the deciding factor

Bull bars - BTM, Towmaster, Maxe if customers ask for it.

Toyota has a booklet with all Maxe stuff that customer can

chose from - Duys just brought one out now recently that should work - depends on salesman.

8. What can you tell me about incentive systems and how big a role do they play?

Quite NB to incentivise the sales people, Maxe does this. Duys does not incentivise. If there is something for nothing the sales people will take it - you need a carrot to move the horse forward.

9. What are Duys' shortfalls?

Delivery

10. What are the main issues - price or differentiation of sorts - and if differentiation, on what basis?

Time is important to customer. Duys is most expensive by about R200 on a towbar, but customer is not that concerned, he goes for what can be supplied faster.

11. Any comments on the business itself and what it takes to be successful?

Duys doesn't make towbars for the Corolla. Hilux is a bit of a slow mover at the moment. When Duys had stock we used to support Alan.



## Normans Toyota

Langley Welthagen 011 326 4232

1. Do you know the Duys Brand?

I have been with Toyota about 10 years and dealing with Duys since around 1996.

2. Is Brand name important?

Brand is not that NB, Toyota approval is the key in our business.

3. What could Duys be doing to help you sell more product and in so doing sell more themselves?

We are now going to other suppliers for Conquest and Corolla tow bars - we used to buy from Duys, but they stopped making them.

Delivery is a problem, we get late delivery, have had to cancel in the past and order from a different supplier. Duys closed their JHB warehouse - that worked well when they had it, as we can't carry stock.

4. Do Duys have a large enough range?

No, Duys' range is not large enough, they only do Hilux as far as we know.

5. Does Duys provide enough sales material?

We get from Alan - only Hilux though. Have bought truck bodies - 1 or 2 from Duys.

6. What do you sell the most - mild steel (painted) or stainless?

Few nudge and bull bars, we sell mostly tow bars. Mostly mild when we do sell bull and nudge bars.

We do about 15 tow bars for Corolla and 10 for Tazz a month.

7. Who's products do you sell the most of?

Towbars - Mainly from B.T.M and Towmaster.

8. What can you tell me about incentive systems and how big a role do they play?

Not really. Not getting from others.

9. What are Duys' shortfalls?

Range and delivery

10. What are the main issues - price or differentiation of sorts - and if differentiation, on what basis?

Most of the time, styling of accessory is NB to customer, especially on Bull bars as they are cosmetic in nature, but Price is always critical - Duys is competitive. Tow bars work solely on price.

11. Any comments on the business itself and what it takes to be successful?

Service must be good, then I won't change, on condition that price must be competitive. In accessories like Duys', it's a price war, little differentiation.

Paarl MTS

Ralf Theunissen 021 872 1531

1. Do you know the Duys Brand?

Been dealing with Duys only a couple months. Never knew the brand before - we are Merc / Mitsubishi dealer. We went looking for tow bars and were recommended to Duys / Alan Heubner. Only been doing this type of product for about a month.

2. Is Brand name important?

When the products are the same, we generally go for price, unless it is Merc parts - people come to us to get Merc parts. Some customers do ask for different (Non-OE) parts - they might ask for a bull bar by name - they also ask for our recommendation.

3. What could Duys be doing to help you sell more product and in so doing sell more themselves?

Limited range for Mitsubishi. Need prices and detailed lists for products, we have not got info.

4. Do Duys have a large enough range?

Not for our products.

5. Does Duys provide enough sales material?

We have never received anything in this regard. We have only received an email with one black and white photo of the runner-board.

6. What do you sell the most - mild steel (painted) or stainless?

Merc is standard factory fitted stuff - we have not been doing Colt long. M.L is stainless.

7. Who's products do you sell the most of?

Runner boards - Excaliber

8. What can you tell me about incentive systems and how big a role do they play?

We don't get incentives.

9. What are Duys' shortfalls?

Haven't been dealing with them long enough to say. Alan has been prompt so far. We have had error with our accounts, but it was small. First order was slow due to admin error, but second was much faster. Would like to meet Alan.

10. What are the main issues - price or differentiation of sorts - and if differentiation, on what basis?

I think it is price in today's financial situation.

11. Any comments on the business itself and what it takes to be successful?

Knowing the customer, doing market research into new products. Keep us up to date with new products.

## Secunda Toyota

Brian Variawa 017 634 7711

1. Do you know the Duys Brand?

As long as I have been here - 3 years. But I have been 25 years in parts game.

2. Is Brand name important?

No - has to just be Toyota approved then it is fine. It is sold as a Toyota product. May not have supplier's name on it.

3. What could Duys be doing to help you sell more product and in so doing sell more themselves?

I used to buy from Duys but don't buy much anymore because they have moved their stock to Durban - takes too long now - more than two days. They must keep common product for same day delivery or min next day. This is why we don't support Duys. B.T.M has product next day. We are marked by Toyota headoffice, on customer service and have to have parts there within a day for supply to customer.

4. Do Duys have a large enough range?

New products are not Toyota approved, the rest of the range is fine - but, we need a Hi-Ace tow bar which Duys don't do, so I have to order elsewhere. We deal with the mines and sometimes do old landcruiser products - we can send to B.T.M and they will make one even if it is discontinued. Duys price is good, compared to others, B.T.M is the cheapest, then Duys.

5. Does Duys provide enough sales material?

Yes, when they come. The rep comes once a month. They had two guys, now one, so if we call Alan and he is not available then we have to wait. This is not good service.

6. What do you sell the most - mild steel (painted) or stainless?

Mild steel black. Very seldom stainless - Bit expensive for our market.

7. Who's products do you sell the most of?

B.T.M from Verenigen.

8. What can you tell me about incentive systems and how big a role do they play?

If I order 10 tow bars then I get one free, that helps me.  
(B.T.M) Not individual incentives.

9. What are Duys' shortfalls?

Delivery, Sun courier would get it there faster. Need stock here. Need access to sales guy to get price to give customer price when they are there - only one guy is not enough.

10. What are the main issues - price or differentiation of sorts - and if differentiation, on what basis?

Price is number one and then quality and service. Price must be ballpark, not going to argue over 20 bucks.

11. Any comments on the business itself and what it takes to be successful?

Service is critical as long as price is in the ballpark.

## La Sport

Lionel Lewis 012 329 4515

1. Do you know the Duys Brand?

Yes, they have a good brand. Been dealing with Duys 5-6 years

2. Is Brand name important?

Brand obviously makes sense, needs to be propagated by manufacturer to create awareness so that retailers sell more.

3. What could Duys be doing to help you sell more product and in so doing sell more themselves?

Not willing to tell you what needs to be done to sell more in general - after all, they are actually a competitor to us, but simply though, they do need more brand awareness.

Also, we could be selling more of their Toyota stuff if it was not limited to being sold only to Toyota by their OE agreements.

4. Do Duys have a large enough range?

Yes, Large enough for the vehicles we sell for.

5. Does Duys provide enough sales material?

We don't really rely on sales info to sell from our outlets, since the products are our speciality - that is more important to the guys that are not experts in the line.

6. What do you sell the most - mild steel (painted) or stainless?

Of Duys' products, we mostly sell stainless nudge bars, but most of our sales are obviously our range, as agents for TJM, the TJM integrated bars.

7. Who's products do you sell the most of?

TJM

8. What can you tell me about incentive systems and how big a role do they play?

Not a really a major in our business. Price is the biggest issue

9. What are Duys' shortfalls?

I am not really aware of any.

10. What are the main issues - price or differentiation of sorts - and if differentiation, on what basis?

These types of products are really similar, a good brand is important, awareness, as I said before, but it is price that is the key factor.

11. Any comments on the business itself and what it takes to be successful?

Consistency is crucial in this business, being in the customers face all the time - in that regard, Duys has a brilliant rep in Alan Hubener, he is always here pushing us - that's why I had to buy some from him. Service is also important.



We at LA Sport could be selling Duys bumper replacement - hit the market together, but it is a competitive product to our TJM range so we would have to give that thought?

Neil Woolridge Pmb

Ian Woolridge 033 3453519

1. Do you know the Duys Brand?

Known Duys through Bernard about 5 years ago.

2. Is Brand name important?

Not really, it is quality that is NB, and this is generally the same.

3. What could Duys be doing to help you sell more product and in so doing sell more themselves?

Concentration on popular range is NB, eg. Landcruiser tow bar that needs to work, would not be made by Maxe for example, that are not as practical, they are cosmetic.

Difficult to decide who to buy from, but I find that quality is most critical. Strength, etc so that I can warrant a slightly higher price. NB our name is reliant on the quality. DUYS is very capable of protecting that.

4. Do Duys have a large enough range?

Not really, there is always a race to develop for new vehicles, but we have been happy that build quality is really good and we put that first. We rely on that from Duys.

Maxe has no opposition with nudge bars. Not good quality in my view if you are looking for a work-horse - it is a cosmetic product, but the dealers have it on file and customers see them there and ask for them.

5. Does Duys provide enough sales material?

Email pictures to us would be great to use to sell to customers - better than grubby brochures

6. What do you sell the most - mild steel (painted) or stainless?

There has been a big push towards stainless for cosmetic reasons but in the wrap-around bull bar side, black steel is still the seller. Tow bars also. Nudge and side steps and roll bars - stainless.

7. Who's products do you sell the most of?

Fair mix between suppliers but probably mostly Maxe due to good marketing by Maxe through dealers. If we as a fitment center want business from the dealers we must include Maxe. Bulk of Bull bars and Tow bars from Duys, B.T.M, Frontrunner and Towmmaster. Dealers deal Towmaster direct. We do work for dealers.

I think time to come bumper replacement is going to be the thing as well as recessed winch mounts

8. What can you tell me about incentive systems and how big a role do they play?

No, we want price and exclusivity to the degree we can get - discount versus incentives.

So we can pass on discount to dealer who can pass on to public

9. What are Duys' shortfalls?

Quality control and service. Price is fair from Duys and quality of build quality is good, but supply quality is useless, people we are talking too are not qualified, they don't know what they are talking about. Bernard and Alan are good but others in "telesales" are not well enough equipped.

Orders come late.

Occasionally parts don't fit / line up.

10. What are the main issues - price or differentiation of sorts - and if differentiation, on what basis?

Quality differentiation, and quality of service. Customers pay for the best.

11. Any comments on the business itself and what it takes to be successful?

Don't go direct to dealers that we for for, else forget middle men, but if using specified fitment center, make middle man guarantee of a certain price to dealers and that way guarantee quality of fitment.

# Appendix 2



This shows **key accountabilities** onlyRestructuring - formation of business units  
Introduction of responsibility portfolio's

Level ONE Level TWO Level THREE

Level FOUR BOARD

Bent Tube Production  
MDW TEAMS  
Pipes United  
Quality Weld services  
Buff Daddy's  
Rocket Coaters

Bent Tube Production  
Supervisor Neville Nelson  
Daily Quality, Speed, Cost and Morale targets are met  
Health & Safety requirements are met  
Pipe bending  
Pipe preparation  
Welding

Powder Coating  
Supervisor David Sishi  
Buffing  
Pickling & Phosphating  
Coatings

Stainless Tube Production  
MDW TEAMS  
Shining Bulls  
Red Bulls  
Stainless Tube Production  
Supervisor Dees Roopel  
Daily Quality, Speed, Cost and Morale targets are met  
Health & Safety requirements are met  
Pipe bending  
Pipe preparation  
Prepolishing  
Welding  
Acid Dipping  
Packaging

Component Production  
MDW TEAMS  
Super Tankers  
Multi Quip  
Shining Stars  
Supa Weld  
Quality Services  
Lotus F1  
Component Production  
Supervisor Errol Karl de Bruyn  
Daily Quality, Speed, Cost and Morale targets are met  
Health & Safety requirements are met  
Bending  
Drilling  
Pressing  
Welding  
Grinding  
Lotus cell  
Despatch

Dispatch and Assembly  
MDW TEAMS  
Super Express  
Supervisor Khoomal Bangwadeen  
Daily Quality, Speed, Cost and Morale targets are met  
Health & Safety requirements  
Assembly  
Packaging  
Dispatch  
Delivery

Sales & Debtors clerk  
Vanessa  
Telesales  
Debtors  
Admin

Receptionist  
Greshni  
reception  
GRN's  
Admin

Fitter and Turner  
Onward  
Production parts  
tooling repairs  
planned maintenance

Elec Maintenance  
Olive  
New installations  
breakdowns  
Hoists and lifts  
planned maintenance

Mech Maintenance  
Keith  
planned maintenance  
mechanical breakdowns  
New installations  
Team Quality Services

Patrol Auditors  
Clement Gradwell  
Jericho Mariah  
Ashin Silajeeth  
Alfred Mchunu  
Abel subramoney

Design Draughtsman  
Duane Smith  
Drawings Solid Edge  
Quality systems  
Records

Artisan - contract  
Jan  
Jig manufacture  
tooling manufacture  
jobbing fabrication

R&D assistant  
Nicholas Mbatha  
Milling jigs  
Jig manufacture

Artisan - contract  
Peter  
Jig manufacture  
tooling manufacture  
jobbing fabrication  
Fitting instructions

Regional rep-Gauteng  
Alan Heubner  
Sales & Custr service - P&A  
Warehouse & Stock

Administration Supervisor  
Lorraine Murugasen  
Reception  
Debtors  
Creditors  
Sales order & invoicing  
Purch orders & GRN's  
Stock Control cycle  
Exact system  
The "A" Team

Production Manager -Aftermarket  
Gilbert Jasson  
Daily Speed, Quality, Cost and Morale plans are met  
Manpower Productivity targets are met  
Quality system requirements are met  
Consumable cost are controlled to budget  
Production Administration  
Work Instructions  
Health & Safety  
Mission Dir Teams

Components- Prod Foreman  
Karl De Bruyn  
Daily production plan is met  
Quality requirements are met  
Material utilisation  
Consumable cost are met  
Mission Dir Teams  
Work instructions

Quality Control Engineer  
Desmond Mottian  
Quality plans  
Receiving Inspection  
Patrol Inspection  
Final Inspection  
NCR System  
Product masters

Technical Manager  
Patrick Privitt  
Product development  
Goshi - productionising  
Jigs and Tooling  
APQP  
R&D Admin  
Perfect Solutions

Prototype Development  
Bernard Van Der Bijl  
Prototype design  
Fitting instructions  
Jobbing  
Quality system

Marketing & Sales Manager  
Russell Escreet  
Sales and Marketing  
Marketing plan is implemented  
Sales targets are achieved  
Export targets are achieved  
Promotion budget control  
Warehousing - stock targets  
Sales budget costs are met  
Advertising budget costs are met

Financial Manager  
George Slabbert  
Management Accounts  
Cash cycle  
Statutory Requirements  
Income Statement  
Balance Sheet  
Exact  
Personnel Administration

Operations Director and Component Business Unit Manager  
Marc Bouchier  
Customer demand is met at budgeted cost  
Quality plans are met  
Production planning-3 Monthly to weekly bucket  
Material Req plan-3 Monthly to weekly bucket  
Budgeted productivity levels are met  
Costing and quoting  
Maintenance  
Project and Process Engineering  
Level Two production control  
Mission Dir Work Teams

Quality Assurance Manager  
Richard Thompson  
Quality Assurance Portfolio  
TS16949 implementation  
Customer quality requirements are met

Managing Director  
Jan Visagie  
Strategy & implementation  
Marketing and Sales  
Profitability  
Cash Flow  
Vision, mission & values  
Quality  
Leadership & Morale  
Costing and quoting  
MDW Master Coach  
The Captain's Crew

Board  
CEO Henk  
Duys



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