

**DIFFERENTIATION OF OLD MUTUAL PROPERTIES
FACILITIES MANAGEMENT DIVISION WITHIN THE
MARKET**

BY

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TO WHOM IT MAY CONCERN

RE: CONFIDENTIALITY CLAUSE

Due to the strategic importance of this research it would be appreciated if the contents remain confidential and not be circulated for a period of five (5) years.

Sincerely

C.P. DEVENISH

DECLARATION

This research has not been previously accepted for any degree and is not being currently submitted in candidature for any degree.

Signed.....

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ABSTRACT

Background: The Facilities Management Division (OMPFM) of Old Mutual Properties was created in 1998 when Old Mutual Properties (Pty) Ltd (OMP) was formed. Old Mutual Properties was previously a division within Old Mutual. Initially the Facilities Management division outsourced most of its services to Facilities Management service providers, and managed the contracts, while they sold their services, as Facilities Management Consultants, in the market. In May 2003 the Facilities Management division was restructured in order to become an active participant in the Facilities Management market.

Objectives: The primary objective of this study is to analyse the Facilities Management Division, and the environment in which it now operates. This needs to be done in order to determine if its differentiation strategy that it has taken is suitable, and secondly in which ways it should differentiate itself in the market.

Methods: A qualitative research methodology has been followed for this project, and it has been based on a case study of OMPFM and the Facilities Management industry in South Africa. In order to meet the objectives of this report all the relevant theory had to be identified and discussed, which could be used to analyse OMPFM and the external environment in which it operates. The theory was then applied to the case study and OMPFM was analysed in detail.

Conclusion: Finally, we have included some recommendations, which we believe will firstly consolidate OMPFM's position within the market, and then differentiate it from its rivals. We believe that the recommendations highlighted would assist OMPFM in achieving their objectives and ultimate mission.

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ABBREVIATIONS

OMP	Old Mutual Properties (Pty) Ltd
OMPFM	Old Mutual Properties Facilities Management Division
FM	Facilities Management
D&S	Drake & Scull (Pty) Ltd (SA)
FMA	Facilities Management Africa
T&T	Turner & Townsend
SA	South Africa
SWOT	Strengths, Weaknesses, Opportunities, & Threats
PEST	Political, Economic, Socio-cultural, Technological
KFS	Key Factors for Success
VCA	Value Chain Analysis
IT	Information Technology

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND AND CONTEXT OF THE STUDY

Old Mutual Properties (Pty) Limited, hereafter referred to as OMP, became a separate subsidiary within the Old Mutual group, after being Old Mutual's Property Division for many decades. This was done in order to provide property management services and solutions to both Old Mutual and other clients within and outside of the Group, thus creating a means to grow the brand and the business. The idea was that OMP should become less reliant on Old Mutual for business and therefore grow Old Mutual's revenue base.

With the creation of OMP, one of the objectives of the newly created company was to grow the company at an average of twenty six percent over the next three years. As Old Mutual is continuing to dispose of certain properties, the only way to achieve the expected growth is either, a) through the acquisition and/or creation of new businesses and/or b) through providing property related services to other landlords, both locally and abroad. This decision was driven with the aim to offer clients outside the Old Mutual stable the wide level of superior skills developed over time, therefore providing Old Mutual Properties with a broader client base.

Since the formation of OMP, the company has created and bought into it a number of companies such as, POP (Point of Presentation) which is an advertising sales company that markets advertising space within and on buildings, Lifestyle Communications is a marketing company formed with a view to specialise in the retail market, and Office Suites is a company formed to supply rented fully furnished offices in properties managed by OMP. POP and Office Suites are new companies wholly owned by OMP, while OMP now owns 70% of Lifestyle Communications.

Old Mutual Properties is one of Africa's largest full-service commercial property firms, providing amongst others;

- Total Property Management of retail, office and industrial premises,
- Property Asset Management,
- Valuation Services,
- Facilities Management Services,
- Sales & Investment Services,
- Property Development

When the new entity was created the divisions within OMP was restructured and the Facilities Management Division (OMPFM) was created. Prior to the creation of the Facilities Management division, OMP had a Technical Services Department that fell within the Property Management division. Initially OMPFM outsourced all the facility management functions on the Old Mutual portfolio to service providers, with OMPFM managing the outsourced service providers while also providing a Facilities Management Consulting service to other clients. With the sales of property and new developments, OMP has continued to manage properties worth around 8 Billion Rand for Old Mutual Plc. However the business with external clients has not grown at an acceptable rate, and OMP is still overly reliant on Old Mutual for business.

The Facilities Management Division has been the most successful business unit within OMP, with regard to obtaining business from clients other than Old Mutual. Most of this business has been in the line of consulting, building inspections and risk assessments, as this was the focus area of the division before it was restructured early in 2003.

Since May 2003, OMPFM no longer only offers FM consulting to the industry, but has become a major player within the facilities management industry. OMP did not renew any of their outsourced facilities management contracts with the external service providers at the end of April 2003. As a result of this OMPFM had to employ about 60 additional staff members. Most of the staff was sourced from the previous service providers, as these service providers could not offer some of the staff employment on their other contracts. Some of the new staff is still battling to adjust to OMPFM's way of

operation. OMPFM must therefore not only ensure a culture fit, but it must also continue to grow the business at the expected rate.

OMPFM has never had to undertake much marketing, as word of mouth generally generated much of the work. The division has entered the mainstream industry and if OMPFM wants to drastically increase its market share it urgently needs to actively introduce itself to the market. It is generally known amongst the industry players that OMPFM is an industry leader, however, OMPFM needs to ensure that the market knows and understands this. OMP has for many years been the market leader in terms of outsourcing, implementation of performance based contracts with service level agreements, life cycle costing for the replacement of equipment within buildings, to mention but a few.

As the FM division is a relatively new business within OMP and the industry, it needs to find ways on how to differentiate itself in the market and create an identity for itself like the other new businesses created by OMP. Another major problem facing OMPFM is its black empowerment credentials. As Old Mutual Plc wholly owns OMP, it currently has the same black shareholding as Old Mutual, which stands at 16%. The empowerment of previously disadvantaged individuals and companies is a major focus of the government and therefore OMP and especially OMPFM must ensure that it has the right shareholding, if it wants to procure any work outside of the Group.

1.2 LITERATURE REVIEW

This is the natural first step in any research. The idea is to cheaply and quickly establish what research has already been done, so that resources are not wasted or duplicated. Such data would have to be relevant and conclusive enough to discourage further research.

For this research project we have made use of mainly secondary data. The secondary data consists of internal and external information. Internal sources would include data such as information from other departments and generally from within the organisation.

External sources include that published through commercial sources. Secondary data is therefore very much a starting point.

Secondary data analysis would assist in guiding the researcher as to what has or has not been covered by previous research, and would enable the researcher to identify the strengths and deficiencies in the previous research. It is expected that sufficient secondary data should be available from various sources, of secondary data for this research project.

Having covered secondary data sources, the next option would be to look at primary sources. Primary data is sourced through three main means: experiment, observation and communication. However this form of data gathering will not be used in this project.

During the course of this research we will review documents pertaining to the subject of Facilities Management. We will also review the theoretical matter that will assist us in answering the questions of how Old Mutual Properties Facilities Management (OMPFM) can differentiate itself in the market and what would be the divisions optimal offering to the market. This information has been obtained from the Internet, magazines, books, as well as information generated by OMP and other organisations, such as tender documents and business plans. The information pertaining to OMP was generally used to create the case study in chapter three. The information used to develop the theory and model as depicted in chapter two, is from various sources, as indicated above, on Strategic Management, Research Methods as well as the Fundamentals of Management.

1.3 PROBLEM STATEMENT

OMPFM is a newly established division within OMP, and must strive to achieve the objectives of OMP. These objectives include:

- Annual growth rate of 26%;
- Grow OMP's client base in order that within five years Old Mutual's business represents only fifty percent of OMP's total business;
- Grow and expose the business both locally and internationally;

- OMPFM is required to attain a growth of 32% per annum.

In order to continue to meet the above objectives of OMP, OMPFM has had to restructure its operation. Instead of outsourcing all the facilities management functions and only managing the process while providing facilities management consulting to other clients it was decided to restructure the operation.

None of the FM contracts were renewed in May 2003, and OMPFM took the opportunity to staff up and obtain the other resources necessary to provide FM services to Old Mutual and other clients.

1.4 VALUE OF THE PROJECT

To identify ways in which OMPFM can differentiate itself within the facilities management industry. As Facilities Management is a relatively new industry in South Africa, there are a number of facilities management companies that have been established, and that are offering a similar basket of services. OMPFM therefore needs to differentiate themselves from the rest of the service providers, if they are to establish themselves as a major player within the facilities management market, within South Africa and Africa. OMPFM should also identify the optimal offering to the market, as this could be one of the factors that differentiate themselves from their competitors.

When the OMPFM division was recently restructured, various scenarios were analysed in order to determine how to restructure this division and as to how the chosen scenario should be implemented. When the division was restructured, an additional 60(sixty) staff members were employed, the majority of which were from other facilities management service providers who used to provide services to OMP. Of the new staff that were employed some are engineers, accountants, quantity surveyors, as well as senior managers. The new staff members have vast experience within their own fields as well as the facilities management industry. The new staff members have an intimate understanding of how some of the competitors operate and how their management thinks. In some instances they were even involved in the strategic planning of the

competitors. Most of the analysis i.e. business plans, swot analysis, etc, that were performed by OMPFM in the past was as seen by the people that were employed within OMP at the time. This is an ideal opportunity to harness the knowledge of the new staff members and in some instances OMPFM may adapt it's strategy and even the way in which we operate. This newly found knowledge could assist OMPFM in differentiating itself in the market, and possibly offer services not previously offered by other facilities management service providers.

1.5 RESEARCH DESIGN AND METHODOLOGY

The methodology for this project is qualitative of nature. Qualitative research is a mixture of rational, explorative and intuitive where the skills and experience of the researcher play a vital role in the interpretation of the available data. The main reason for using qualitative research and qualitative research methods is the objective of the research project, as well as the skills and environment in which the researcher finds him (Ghauri P et. Al, 1995). Qualitative research is also very suitable for studying organisations, groups and individuals. The three main components of qualitative research include:

- Data – collected through interviews or observations,
- Interpretive or analytical procedure – the techniques to conceptualize and analyze the data to arrive at findings and theories,
- Report - written or verbal (Strauss and Corbin 1990)

Qualitative research methods are flexible and unstructured, when compared to quantitative methods. The qualitative method is used in this research as one can make a number of observations, and then try to explain the different aspects of the problems. Qualitative method is most suitable when the objectives of the study demand in-depth insight into a phenomenon (Ghauri P et. Al, 1995).

This research will include a case study regarding Old Mutual Properties Facilities Management Division. The case study approach has been chosen as it is generally seen as an excellent way to research and evaluate real-life problems, and it is also very useful

where there is limited theory available to serve as a guide. The main focus of the case study is to seek insight into the OMPFM Division instead of testing the way it currently operates. The case study method is also a preferred method when 'how' or 'why' questions need to be answered, especially seeing that we have little or no control over events especially when the focus is on a current phenomenon in a real-life context (Yin, 1989).

1.6 LIMITATIONS OF THE PROJECT

The new Financial Charter regarding black empowerment in the financial services industry has not yet been finalized, and subsequently Old Mutual has not been able to finalise its black empowerment strategy, which has an impact on OMP and OMPFM. This could have a huge impact on the potential to obtain business in South Africa if not applied correctly. Once Old Mutual finalises its strategy regarding black empowerment, OMPFM might have to adjust its strategy to suite that of the Group.

As the facilities management industry in South Africa is fairly new, and was only established in 1996, limited information is available pertaining to other facilities management service providers within South Africa. Most of the information is obtained via marketing material, contractors, ex employees, or staff within the employ of these service providers. SAFMA, the South African Facilities Management Association, does not release much information, as most of its members are service providers to the industry, who themselves are reluctant to disclose any information, other than that for marketing purposes.

The development of the Facilities Management industry, is and will continue to have a huge impact on other industries, i.e. property, manufacturing, mining, etc. For example, the reaction by property management, within the property industry, is unknown and one must assume the direction that they will be taking, will be as a result of the development of the facilities management industry.

As this research project is qualitative of nature, a major limitation could be the interpretation and availability of data. The experience and skills of the researcher will have a major impact on the analysis of the data. As Facilities Management is a relatively new industry in South Africa, the experience and skills are limited to the exposure received by the people within the industry. Old Mutual Properties and its staff has always been a major role player within this industry, both in consulting as well as in an active capacity. As a result, most of the limitations regarding the skills and experience of the researcher should be removed. OMPFM has been active in the facilities management industry since 1996, and has provided their services on the eight billion Old Mutual portfolio, as well as to a number of clients outside of OMP. OMPFM has provided services to other property landlords, tertiary institutions, convention centers, utility service providers, and to the leisure market. The researcher has been involved in many of the initiatives.

The timing and the time frame in which this project has been completed could be a major limitation to the results of the project. As this industry and market is a dynamic and the market that is continuously changing, the results of this project may only be suitable for a limited period, following which OMP will have to adapt its strategy.

1.7 STRUCTURE OF THE STUDY

Chapter two deals with the theory that will be used to analyse the case study that appears in chapter three. The theory will deal predominantly with issues related to the internal and external environment of an organization, which could have an impact on whether or not the organization is successful in the facilities management industry. Various tools will be provided which should assist the management in OMPFM in analysing its business. Tools such as the PEST analysis, SWOT analysis, Porter's Fives Forces Model, a company's core competencies and value chain, as well as the key factors for success in an industry will be discussed in this chapter.

Chapter three pertains to a case study of the Facilities Management Division of Old Mutual Properties and the market in which it operates. A detailed review of the case is provided here. It provides details as to the company history and the environment in

which OMPFM operates, which include information on amongst others, its competitors, its suppliers, the market size and the growth prospects.

In chapter four the case study presented in chapter three will be evaluated against the theory and the strategy formulation process that is proposed in chapter two. While, finally, in chapter five recommendations are made to OMPFM. Some of these recommendations are purely to improve the company's internal operations, and therefore make it more efficient, while others will hopefully assist OMPFM in differentiating itself from its competitors in the market.

1.8 SUMMARY

This chapter is an attempt to highlight the background and the context of the study. The study is based on the recently restructured Old Mutual Properties Facilities Management Division. This division has become an active player within the facilities management industry in South Africa, and must now identify ways in which it should differentiate itself in the market, in order to grow the business and meet the objectives of both the business unit and the company.

The research is qualitative of nature, and has been based on the case study of OMPFM and the FM industry within South Africa at the moment. The information used for this research has been obtained from journals, in-house documents, and other information available in the public domain. As the FM industry within South Africa is still undergoing major changes, the timing is seen as the most important limitation. Not only is the industry changing, but also client's requirements are changing and black economic empowerment is still going to have a major influence on this industry.

CHAPTER TWO

THEORY, MODEL DEVELOPMENT

2.1 INTRODUCTION

This chapter deals with the theory related to the case study in chapter three. An attempt will be made in this chapter to discuss the theory that will allow us to analyse the case study with a view to identifying ways in which OMPFM could differentiate itself in the market. The theory will deal predominantly with issues related to the internal and external environment of an organization, which could have an impact on whether or not the organization is successful in the facilities management industry. Various tools will be provided which should assist the management in OMPFM in analysing the business.

2.2 ORGANISATION'S MISSION, VISION AND OBJECTIVES

Mission and Vision: The mission statement is the starting point for forming a strategic vision for the company. A *mission statement* can be seen as being focused on the present business scope, and broadly describes an organisation's present capabilities, customer focus, activities and business makeup. A *strategic vision*, on the other hand, is really focused on where the company is going and then charts a strategic path for it to follow. A strategic vision tends to have much greater direction setting and strategic-making value. The strategic vision provides specifics about the technology, customer focus, and markets to be pursued, the capabilities the organization plans to develop, and the type of company management it is attempting to create (Thompson & Strickland, 2003).

Objectives: Setting objectives converts the strategic vision and business mission into specific performance targets, through financial and strategic objectives. Setting objectives, and then monitoring them to see whether they are achieved or not, assists the organisations managers in monitoring progress. Bold or ambitious targets push the

organisation to new levels. The company, departments within the company as well as all managers should set objectives. Two types of objectives that should be set by all organisations are financial and strategic objectives.

Financial objectives relate to the financial results and outcomes that the company's management wants to achieve. *Strategic objectives*, on the other hand, aim at results that reflect improved competitiveness and business position. These two objectives intend to inform the relevant parties that the company not only wants to deliver good financial results, but also wants to improve the company's competitiveness within the market (Thompson & Strickland, 2003).

Good long-term objectives should be (Pearce J.A and Robinson R.B, 2000):

- Acceptable – Staff are most likely to pursue objectives that they “buy into” or make their own;
- Flexible – A company's objectives should be adaptable so as to cater for changes within the company's competitive environment;
- Measurable – Objectives must clearly state what will be achieved and by when. Managers cannot manage what they cannot measure.
- Motivating – Objectives should motivate the staff, make them want to achieve the set targets. Objectives should not be too low that they are easily attainable, however, they should also not be too high to frustrate the staff, but high enough to challenge.
- Suitable – They should suite the broad aims of the firm, as set out in the mission statement, and
- Understandable – All staff should clearly understand what should be achieved.

2.3 SWOT ANALYSIS (Strengths, Weaknesses, Opportunities and Threats)

There are numerous environmental and internal factors that affect an organisations success. An analysis of all factors is not only time consuming, but also serves to clutter strategic foresight with factors that are not vitally important. Therefore only a few key factors for success need be identified. The aim of the SWOT analysis would therefore be

to match likely external environmental changes with the company's internal capabilities, and challenge how the company can take advantage of new opportunities while defending itself against possible threats (Ambrosini, 1998).

The aim of a SWOT analysis is to pinpoint the organisations key threats and weaknesses and to eliminate or turn them into opportunities using their strengths. The opportunities and threats facing an organisation can be determined through environmental scanning (PEST analysis and Porter's Five Forces Model).

A SWOT analysis is a good way of summarizing the current status of an organisation. The strengths and weaknesses of an organisation can be determined by conducting an analysis of the organization's internal resources, thus determining the value they add and the sustainable competitive advantages they deliver through interactions of core competencies and core products. While the opportunities and threats are determined by conducting an analysis of the external environment in which the organisation operates.

A *Weakness* is something that an organisation lacks or performs poorly, in comparison to others, or puts it at a disadvantage. Internal weaknesses can be seen as shortcomings in an organizations complement of resources. Sizing up an organisations complement of resources the *strengths* can be seen as competitive assets, while the weaknesses would represent the liabilities. The ideal situation for any organisation would be where the assets outweigh the liabilities. All the strengths and weaknesses should be rated in the light of their importance, as some strengths are competitively more important than others and have a greater impact on the companies strategy. Likewise some weaknesses can prove fatal to the organisation if not attended to, while others may be inconsequential (Thompson & Strickland, 2003).

Market *opportunities* are an important factor when shaping a company's strategy. Market opportunities must be identified in terms of growth and profit potential for the company. The company's opportunities can be scarce or plentiful, depending on the prevailing market conditions. As with strengths and weaknesses the opportunities should be ranked in terms of their importance. While ranking the opportunities one must guard against viewing every industry opportunity as a company opportunity, as the company may not necessarily be equipped to successfully pursue every industry opportunity.

All the factors, within the company's external environment, that poses a *threat* to the company's profitability and well-being should be identified. External threats can take the form of rivals' cheaper and better technology, new products, new regulations and laws, etc. Like the rest of the items involved in a SWOT analysis the threats need to be evaluated and then ranked. The company's strategy then needs to be adapted in order to defend against these threats.

Below are some guidelines for undertaking a SWOT analysis, and that will contribute to the quality of the outcome:

- Where possible, strengths and weaknesses are to be related to critical success factors of the organization.
- If possible, strengths and weaknesses should be stated in competitive terms. It is good to know that you are better than your competitors at something.
- Be specific. Do not list ideas.
- Distinguish where the company is now versus where the company wants to be. The gap is important.
- Be realistic (Lynch, 2000).

To have any value the SWOT analysis must be a basis for action, and must generate thinking and contribute to the company's future strategy.

2.4 CORE COMPETENCIES

As defined by Thompson & Strickland, "A *Core Competence* is something that a company does well relative to other internal activities; a *distinctive competence* is something a company does well relative to other competitors." A company's competence is developed over time, and does not just happen. A company's competence becomes meaningful when clients or potential clients deem the competence valuable and beneficial, when it helps to differentiate a company from its rivals, and when it enhances its competitiveness. A company should therefore be seen as having a collection of capabilities and not only a single competence. Most often, a company's core competence resides in its staff and their intellectual capital and not in its assets on the balance sheet.

The recruitment, training and development of staff in any organization is therefore vital if the organization wants to stay ahead of its competitors (Thompson & Strickland, 2003).

What a company does well internally does not necessary translate into a distinctive competence, unless the company performs that competence better than its rivals. It is always better to build and maintain a distinctive competence where it would be costly and time consuming for competitors to imitate. For a company's resource to qualify as the basis for sustainable competitive advantage it must:

- Be a resource that is hard to copy.
- Be long lasting;
- Be really competitively superior;
- Not be easily trumped by the different resources/capabilities of its competitors (Thompson & Strickland, 2003).

2.5 GENERAL ENVIRONMENTAL ANALYSIS

A general environmental analysis is often referred to as a PEST analysis, as it is an analysis on the Political, Economical, Socio-cultural and Technological environments. The PEST analysis provides a useful starting point in any analysis of the general / remote environment surrounding an industry and/or organisation. Although the items in a PEST analysis rely on past events and experiences, the analysis can be used to forecast the future through the identification of general trends (Lynch, 2000).

An environmental analysis seeks to uncover relevant information rather than extensive information. That is quality rather than quantity. The environmental analysis can be local, national or international, depending on which area the information is being used when the company strategy is formulated (Rue and Holland, 1986).

2.5.1 Political Environment

In addition to direct intervention in an industry, governments influence companies by a variety of other mechanisms such as laws prohibiting or forcing certain actions, regulation of public expenditure, competition policies, taxation policies and regional policies. Therefore the political sector presents actual and potential restrictions on the way an organization operates. These policies can have a major influence on companies' location and profitability. In South Africa the government has introduced many new laws since it came into power in 1994. Major laws that have, and still are having, a major impact on businesses within South Africa include amongst other, the Employment Equity Acts, and Labour Relations Act.

The political environment is probably the most subject to influence exerted by organizations or groups of organizations with common goals. (Rue and Holland, 1986) In practice, organisations often make considerable efforts to obtain government grants and other forms of support as part of their corporate strategy. Politics have been an important driver of industrial growth. Corporate strategy needs to consider the opportunities and difficulties that derive from such policies (Lynch, 2000).

2.5.2 Economic Environment

The fluctuations of local, national and world economies are related in a general sense. However, it is important to make separate assessments, depending on the environment in which the company operates or wants to operate. To assess the local situation, an organization might seek information concerning the economic base and the future of the region and the effects of these issues such as wage rates, disposable income, unemployment, skills level of the general population, i.e. technical, transportation, interest rates, exchange rates and the currency fluctuations, inflation rates, foreign direct investment, economic growth i.e. gross domestic product (GDP), etc. (Rue and Holland 1986).

The growth within a country needs to be analysed, so as to determine in which sector the growth is taking place. Is the growth within the manufacturing, mining, industrial, property or services industries? Some sectors may require more capital investment, while

others will require a high level of skilled staff. Is the country a developing or developed country? Developing countries are usually characterized by relatively high unemployment, low standards of education and rising population levels. It is possible for an organization to be operating or dealing in many different economic environments (Rue and Holland, 1986).

2.5.3 Socio – cultural Environment

The behaviour patterns of individuals and groups reflect their attitudes, beliefs, and values. The impact of the social sector can be felt in the changing needs, tastes, and preferences of consumers, in relationships with employees, and in the expectations of society about how the organisation should fill its citizenship role (Rue and Holland, 1986).

National culture governs much of the way that society operates. Asking members of a company to undertake tasks that they do not understand or find unacceptable in terms of their value system will lead to a failed strategy. National culture and values govern both the style and content of the way business is carried out internationally.

In recent times, there has been a great increase in terms of the concerns of how organizations use or abuse the physical environment. This could have a huge impact in terms of companies being able to obtain work from the government and other large institutions. Social attitudes that are strongly held are often expressed in law. This could be in the form of the Employment Equity Act, recent changes to the environmental laws in South Africa, changes to the Labour Relations Act, etc.

2.5.4 Technological Environment

“Technological trends include not only the glamorous invention that revolutionizes our lives, but also the gradual painstaking improvements in methods, in material, in design, in application, in diffusion into new industries and in efficiency” (Ibid., page 139). It also includes all hardware and software. The effects of technological changes can be felt in a number of ways;

- New products or services,
- Alternate methods of service delivery, processing methods, and raw materials;
- Changes in complementary products or services (Rue and Holland, 1986).

In analysing technological change, the pervasiveness of electronics and the rapid pace of electronic development have led to shorter life cycles in some industries. In addition better communication has meant that any technological advance is now shared much more quickly around the world, so that it is difficult to sustain technological advantage without patents. At the same time research and development are becoming more expensive. Analysis of technology will need to examine both the life cycles of the organisation's major products, and at a more fundamental level, the technological resources available to the company.

Foreseeing, and determining the implications, of technological changes is probably not as difficult as choosing the right time for reacting to these changes. One should not react to all technological changes, but should react to those that can impact on the company's performance or its ability to compete in the market (Rue and Holland, 1986).

Given the pace of change over the last twenty years, technology is playing an increasingly important role in the development of sustainable competitive advantage. Even in mature industries, non-profit organisations and small businesses, it is technology that has on occasion added the extra element to differentiate the organisation. For these reasons, technology based strategy needs careful investigation. New technology developments are just as likely to alter the vision and purpose of the organisation as any other area. They can extend and enhance the existing position of the company. There are two main phases of new technology development (Lynch, 2000).

2.6 THE COMPETITIVE ENVIRONMENT - PORTER'S FIVE FORCES

An analysis of the industry usually starts with an examination of the forces influencing an organisation. The objective of such an analysis would be to develop the competitive advantage of the organisation, enabling it to defeat its competitors. Professor Michael

Porter, from the Harvard University Business School, undertook much of the analysis which led to the presentation of the “Porter’s Five Forces Model” (Lynch, 2000).

The Porter’s Five Forces Model is generally used to analyse the competitive environment of an organisation. The model has five forces that affect the industry and the players within the industry, namely: the power of the suppliers, the power of the buyers, threat of new entrants, threat of substitutes and the rivalry amongst competing sellers in the industry. This is a theoretical model and is generally accepted as being effective in a stable environment. In order to overcome this limitation, the competition should be analysed on a regular basis, and the company’s strategy adjusted accordingly (Lynch, 2000).

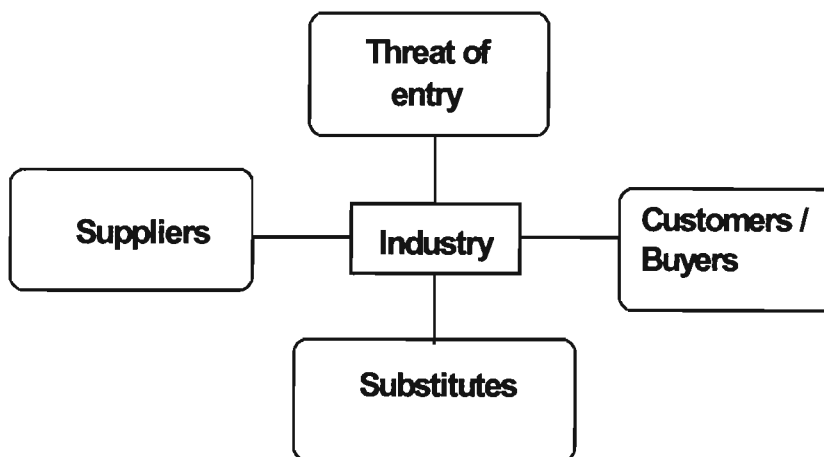


Figure 2.1: Porter’s five forces model used to determine market attractiveness.

Porter’s five forces model is a tool for systematically analysing the competitive forces in a market and also for assessing how strong and important each one is. It is the most widely used technique of competition analysis, and is easy to apply and understand (Thompson & Strickland, 2003).

2.6.1 Suppliers Bargaining Power

Almost every organisation has suppliers of materials or services that are used to produce the final goods or services. Suppliers are generally powerful under the following conditions:

- If there are only a few suppliers of a particular product or service. This means that it could be difficult to change suppliers if the supplier starts to exert power,

in one way or another, on the buyer. However, the supplier will tend to have less bargaining power when supplying to a major customer.

- If there is no substitute for the supplies that they offer, and especially if the particular product or service is critical to the end product.
- If the suppliers prices form a large portion of the total cost of the operation. Any large price increase from the suppliers could affect the organisations ability to compete in the market, especially if the product or service is price sensitive in the market.
- If a supplier can undertake the value-add process of the organisation themselves. This would pose a threat to the organisation, as they may end up competing in the same market, should the supplier choose to integrate forward and provide the value-add services themselves (Lynch, 2000).
- When the exit barriers are high, that is the costs are high if a suppliers wants to abandon a market, the suppliers would generally fight to ensure that they stay in the market (Thompson & Strickland, 2003).

2.6.2 Buyers Bargaining Power

Buyers may also be termed the customers of the organisation. Just as with suppliers, the leverage that buyers have can range from strong to weak. Whether buyers purchase in large or small quantities, they would tend to have more bargaining power under the following conditions:

- If backward integration were possible by the buyers, they would be in a position to take over the role of the organisation.
- If the selling price is unimportant to the total cost of the buyer.
- If the buyers are concentrated and there are only a few of them, the organisation could be forced to sell its products or services to them (Lynch, 2000).
- If buyers are generally well informed about the products and their prices. The more informed the buyers are the better their bargaining position will be.
- If the buyers switching costs were relatively low, the buyers would have the flexibility to purchase competing brands or substitutes.

Buyers would have weak bargaining power when they buy infrequently or in small quantities and when they face high costs to switch brands. It is important to note that not all buyers of an industry's product or service have equal degrees of bargaining power (Thompson & Strickland, 2003).

2.6.3 Threat of Substitutes

Consumers are always looking for the best quality at the best possible price. A substitute is something that meets the same needs as the products produced in the industry. Substitutes do not necessarily replace existing products, but could result in reduced production costs, or the introduction of new technology. Therefore, substitutes could limit the profits of an organisation by keeping prices down (Lynch, 2000). From a strategic viewpoint the key issues that should be analysed are:

- Whether attractively priced substitutes are available.
- The ability and willingness of the customers to change to the substitute.
- Whether the substitutes are viewed as satisfactory in terms of performance, quality, etc (Thompson & Strickland, 2003).

2.6.4 Threat of New Entrants

New entrants are attracted to a particular industry when the profit margins are attractive and the barriers to entry are low (Lynch, 2000). New entrants into a market bring new production capacity, the desire to establish a secure place within the market, and in some instances substantial resources with which to compete (Porter, 1979). Just how serious the competitive threat of entry is in a particular market will depend upon the barriers to entry and the expected reaction of incumbent firms to a new entrant. A barrier to entry exists whenever it is difficult for a newcomer to break into the market or economic factors put a potential entrant at a disadvantage relative to its competitors. Porter highlighted several types of barriers to entry (Porter, 1980):

- Economies of scale – This could deter new entrants because they are forced to either enter the market on a large scale, which is a costly and risky move, or to accept a cost disadvantage and consequently lower profitability.

- Capital requirements – The larger the total investment required to enter the market successfully the more limited the pool of potential entrants will be. Entry into some markets may require major investment in technology, plant, distribution, service outlets and other equipment.
- Government policy – Governments can limit or even bar entry by requiring licenses and permits. Governments can also implement new laws and regulations that make it difficult for new entrants to comply with and that raise the barriers to entry. In international markets, the host governments limit foreign entry and must approve foreign investment applications.
- Brand preference and customer loyalty – Buyers are often attached to established brands. A high brand loyalty could mean that a potential new entrant will have to spend huge sums of money on advertising and marketing in order to overcome customer loyalties and build its own clientele. Establishing brand recognition and building customer loyalty can be a slow and costly process. In addition, if it is difficult or costly for a customer to switch to a new brand, a new entrant will have to persuade buyers that its brand is worth the switching costs.
- Learning and experience curve effects – When lower unit costs, or the quality of service delivered, is partly or mostly a result of experience and skills, and other learning curve benefits, new entrants potentially face a significant disadvantage when competing against existing firms with more accumulated know-how.
- Cost and resource disadvantages independent of scale – Where an established company knows the market well, has the confidence of major buyers, has invested heavily in infrastructure to service the market and has specialist expertise, it becomes increasingly difficult for a new entrant to gain a foothold in the market.
- Access to distribution channels – It is not good enough to produce a quality product, it must be distributed to the customer through channels that may be controlled by companies that are already in the market.

2.6.5 Competitive Rivalry within an Industry

Some markets tend to be more competitive than others. In highly competitive industries companies engage in extensive monitoring of the key competitors. In some industries, rivalry is based on price competition. Occasionally the competition can be so fierce that

market prices temporary fall below unit costs, resulting in losses for some or most rivals. However, in other industries price competition is minimal, and rivalry is based predominantly on factors such as, quality of product and/or service, creating stronger brand image, being first to the market with innovative products, offering longer guarantees, and after sales service. The intensity of the rivalry is a function of how vigorously they employ tactics as mentioned above. The success of any one firms strategy hinges on what strategies it's competitors employ and the resources they are willing and able to put behind their strategic efforts (Thompson & Strickland, 2003).

Irrespective of the industry, several factors appear to influence the rivalry amongst firms (Thompson & Strickland, 2003):

- Rivalry increases as the number of competitors increase and as competitors become more equal in size and capability.
- When demand for a product or service decreases, the rivalry tends to increase.
- When industry conditions tempt competitors to use price cuts to boost volumes, rivalry can becomes very intense.
- Rivalry tends to increase when customers' cost to switch brands is low.
- When one or more competitors want to increase their market share at the expense of their competitors.
- Rivalry increases following a successful strategic move by one of the competitors.
- When the cost to exit the industry is high, this results in increased competition.
- Rivalry increases when a strong firm from outside the industry, acquires a weak firm, and then launches an aggressive strategy in order to gain market share.

It is not enough to produce a detailed analysis of the industry and the firm's competitors. It is important to consider the implications for the organisation's strategy.

2.7 KEY FACTORS FOR SUCCESS (KFS)

An industry's key success factors are those things that most affect industry members' ability to prosper in the market place, and are therefore the rules, which shape whether a

company will be financially and competitively successful. The KFS are determined, on the basis of current and anticipated market conditions. (Thompson & Strickland, 2003) Key success factors are the resources, skills, and attributes of an organization that are essential to deliver success in the market place. The KFS are common to all major organizations within a particular industry, and do not differentiate one company from another (Lynch, 2000).

According to Ohmae there are three principle areas that need to be analysed, namely: Customers, Competition and the Corporation. There are some questions that could be asked that would assist in the analysis such as: For *Customers* - What do the customers really want? Why do they buy from us? What are the market segments? Can the organizations strategy be directed towards a particular segment or segments? It is these factors that are discussed below. For the *Competition*: How can the organization beat the competition? What resources and customers do they have that make them successful? What is the competitors strategy regarding issues such as price, quality and service? And finally there are some questions regarding the *Corporation*: What special resources does the organization have? How does the company compare to its rivals on issues such as price, technology, marketing, skills, experience, etc?

Common types of KFS include amongst other (Thompson & Strickland, 2003):

Staff Skills – In order to provide excellent service to customers on an ongoing basis, the organization needs to have superior staff that are experienced, well trained, motivated and understand the customer demands and needs. Staff should have the ability to develop innovative products and service offerings.

Brand Equity / Marketing – An organisation needs to create national awareness of their product or service, as they may be competing against other well-established brands. The organisation must be aggressive in its marketing. Success should be celebrated with customers and in the media, as these successes builds trust and confidence with the organisations own staff as well as with its customers. Presentations and marketing material should be attractive and professionally presented, and web sites should provide detailed information and be updated on a regular basis.

Organisational Capability – The organisation should have superior information systems, as without the necessary information, management cannot perform its functions. As the market conditions are continuously changing, the company's structures must have the ability to respond quickly to these shifting market conditions.

Quality Control – In order to achieve continued customer satisfaction, one must ensure that the end product is what the customer wants and that the quality of the product or service remains consistent and does not continuously change.

Technology – An organization needs to have the expertise for the given technology. The technology used by an organization needs to be analysed on a regular basis, and upgraded or replaced if necessary.

Financial Standing – Organisations want to know that they are dealing with a company that has a good financial track record, and is going to be around tomorrow. The company also needs to have access to financial capital in order to grow the business.

Being distinctively better than rivals on one or more KFS presents a golden opportunity for gaining a competitive advantage. When KFS have been correctly identified they can provide a checklist for the rest of the strategic analysis process.

2.8 VALUE CHAIN ANALYSIS (VCA)

The value chain analysis is a framework for taking that knowledge that is available about the organization and then structuring it so that it can provide the organization with new insights into the business (Porter, 1985). A diagram explaining the value chain is shown below in figure 2.2.

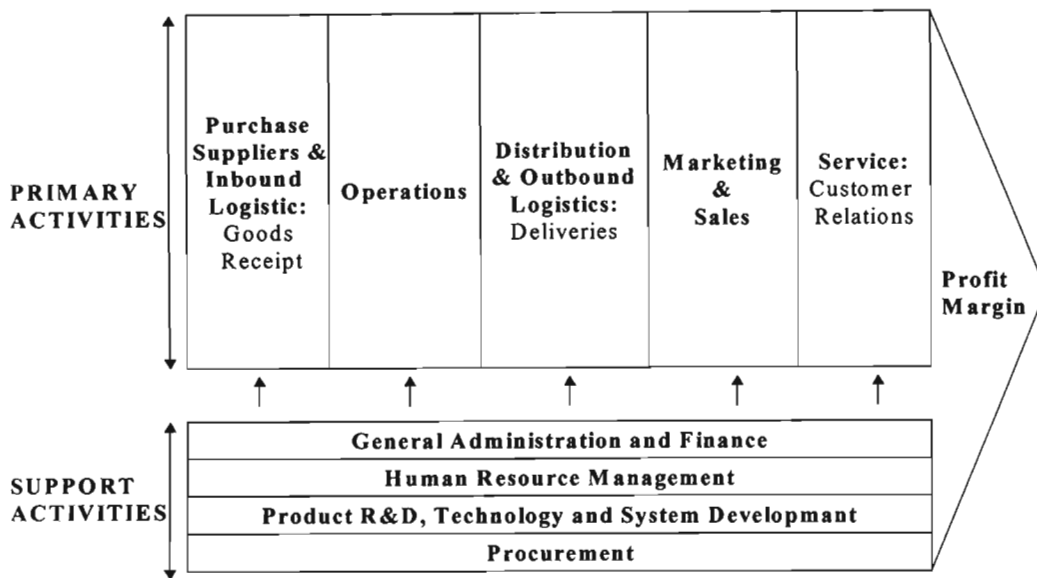


Figure 2.2 – Company Value Chain

The value chain links the value of the activities of an organization with its main functional parts. It then attempts to assess the contribution that each part makes to the overall added value of the business. The company's activities should be split into primary and support activities, as highlighted in the figure above. The margin in the diagram can be seen as the value add within the company. Managers within a company need to understand the entire value chain system, and not just the company's own value chain.

2.9 PORTFOLIO MATRICES

Portfolio analysis can assist an organisation in the assessment of the balance of its mix of services, products or businesses.

2.9.1 The McKinsey Directional Policy Matrix

This matrix attempts to represent the industry attractiveness and business strength, as shown below (Ambrosi, 1998).

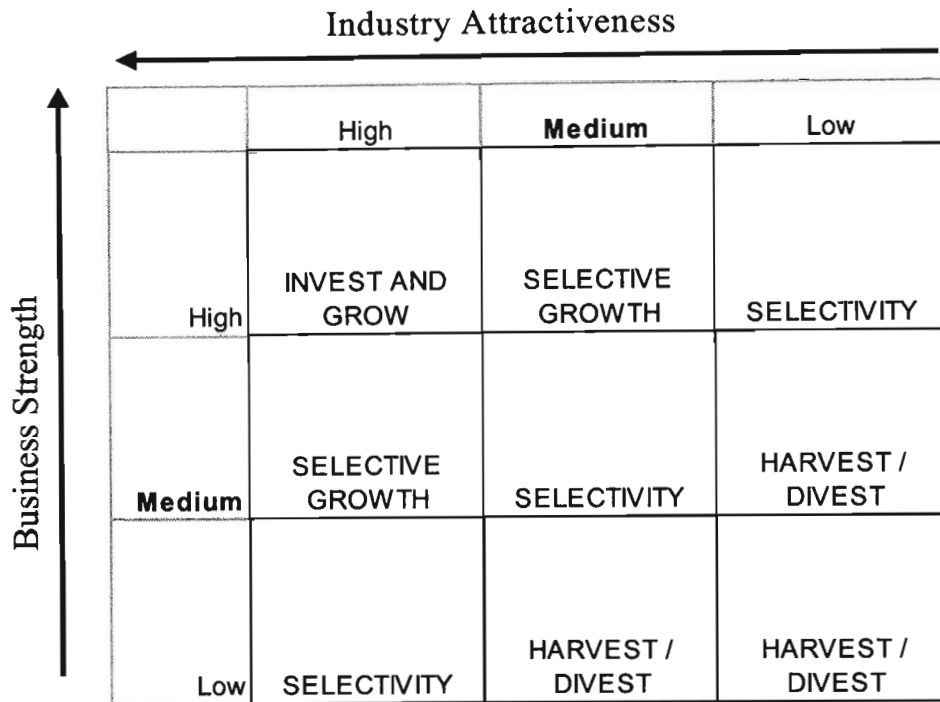


Figure 2.3 – Mckinsey directional policy matrix

As can be seen in the reverse axes, high industry attractiveness meets high business strength, which leads to a recommendation of investment with the objective of growth.

2.9.2 The Life-Cycle Portfolio Matrix

This matrix chooses competitive position as a measure of the firm's strength within the industry. There is an appropriate strategy for any maturity level, and therefore no particular maturity level is good or bad (Ambrosi, 1998).

Stages of Industry Maturity

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

Figure 2.4 – Life-Cycle Portfolio Matrix

2.10 COMPETITIVE STRATEGIES

Any long term strategy of an organisation should attempt to seek a competitive advantage based on one of three generic strategies, namely (Pearce J.A and Robinson R.B, 2000):

- Striving for overall low cost-leadership, in the specific industry.
- Striving to create and market unique products or services for a variety of customers, through differentiation; or
- Striving to have a special appeal to one or more customers, through focusing on their cost or differentiation concerns.

However, these strategies can be further broken down as shown in the figure 2 below into broad and narrow differentiation, as well as overall low-cost and focused low cost leadership (Thompson & Strickland, 2003).

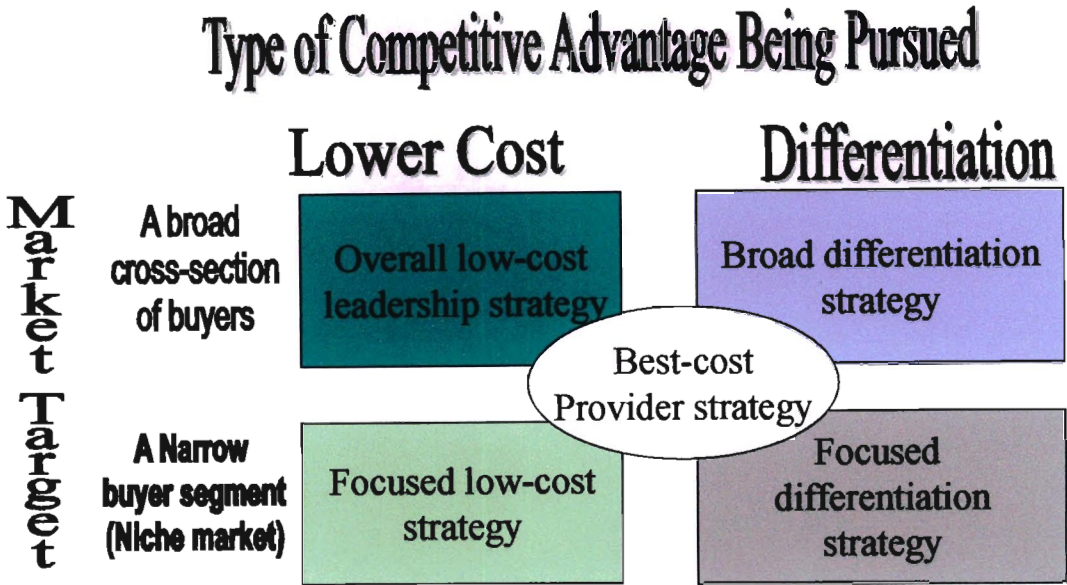


Figure 2.5 – Competitive Strategies

2.10.1 Low-Cost Leadership Strategies

The *low-cost leadership* strategy is when a company attempts to appeal to a broad spectrum of customers on being the overall low-cost provider of a product or service. In order to achieve a cost advantage a company’s total costs across its value chain must be lower than it’s competitor’s costs. This can be achieved by adapting the company’s value chain to bypass some cost-producing activities, and by performing internal value chain activities efficiently and managing the factors that can drive down costs. The key to success with a low-cost strategy is that the company’s managers must scrutinise each cost-creating activity and identify its cost drivers. These costs can then be continuously managed downwards.

A competitive strategy based on low-cost leadership is powerful when (Thompson & Strickland, 2003):

- The price competition amongst rival firms is vigorous;
- The product or service is standardised or is readily available in the market;
- There are only a few ways in which to achieve differentiation that is of value to buyers of the service or product;
- Most buyers use the product or service in the same way;
- Buyers incur low switching costs when changing suppliers or service providers;
- Buyers are large and have significant power to force down prices;
- Industry newcomers use low prices to attract clients and build a customer base.

Low-Cost strategies do have their disadvantages. The biggest disadvantage is that of getting carried away with the price-cutting, and then ending up with lower rather than higher profitability. A second pitfall is not emphasising areas of cost advantage that can be kept proprietary or that force rivals to play catch-up. Another pitfall is that the company could become too fixated on cost reduction. A low-cost provider's product or service offering must always contain enough attributes to be attractive to prospective buyers; therefore low price by itself is not always appealing to buyers (Thompson & Strickland, 2003).

2.10.2 Differentiation Strategies

Differentiation strategies are a good approach whenever buyer's needs and preferences are too diverse to be fully satisfied by a standardised product or services, or by service providers with identical capabilities. To be successful with a differentiation strategy the company must analyse its clients and potential clients in order to determine what their needs are, what they consider to be important, what they think has value, and what they would pay for the service or product. The essence of differentiation can be seen as being unique in ways that are valuable to the customers and that can be sustained. The more that a company's offering appeals to customers, the more they will bond with the company and the stronger will be the competitive advantage (Thompson & Strickland, 2003).

Successful differentiation will allow a company to:

- Command a premium price for its services or products,

- Increase its sales, and
- Gain buyer loyalty to its brand.

Differentiation will therefore enhance the profitability of the company, whenever the extra price commanded outweighs the added costs of achieving the differentiation. A company's effort towards achieving differentiation usually raises costs. The trick to profitable differentiation is to keep the costs of achieving differentiation below the price premium that the differentiating attributes can command in the market.

The most appealing approaches to differentiation are those that are difficult and / or expensive for competitors to imitate. Sustainable differentiation is normally linked to the core competencies, unique competitive capabilities and the superior management of the value chain activities of the organisation. Some approaches that could be used in a differentiation-based strategy include (Thompson & Strickland, 2003):

- Delivering value to customers via competitive capabilities that rivals don't have or cannot afford to match.
- Incorporating features that enhance buyer satisfaction in non-economic or intangible ways.
- Incorporating features that raise the performance that a buyer gets out of the product or from the service.
- Incorporating attributes and features that lower the overall costs of using the company's services.

The problems generally associated with differentiation strategies are (Lynch, 2000):

- The difficulty in assessing whether the extra cost incurred in differentiation can be recovered from the customer.
- Successful differentiation may attract competitors to copy the differentiated product or service, and may even attract new entrants into the market.
- Over differentiating, so that price is too high relative to competitors, or that the new service exceeds the needs service level required by customers.
- Not understanding what consumers understand as value.

- Trying to differentiate on the basis of something that does not lower the buyer's cost or enhance the buyer's well being.

2.10.3 **Focus Strategies**

Sometimes neither the low-cost leadership nor differentiation strategies are suitable for an organisation across a broad range of the market, and it may then be better to adopt a focused strategy. A focused strategy occurs when the organisation focuses on a specific niche in the market place. A focused strategy therefore selects a segment or group of segments within an industry and then focuses and then tailors its strategy to serve those segments to the exclusion of others.

Like the other two strategies, a focused strategy does also have some problems of its own. The niche segments or segments chosen may be small and may therefore only have limited growth opportunities. The niche is clearly specialist in nature, and may disappear over time, and cost focus may be difficult if economies of scale are important.

2.11 **STRATEGY FORMULATION PROCESS**

As can be seen in figure 6, below, an organisation must first identify its mission and objectives. Without these, the organisation cannot plan its way forward. Once this has been decided the organisation must analyse its internal and external environments. The SWOT analysis has been broken up in order to depict which sections fall within the external and internal analysis. This analysis could be done simultaneously, and does not necessary only get done when an internal or external analysis is done. All of these models have been discussed in detail above. The purpose of this diagram is to highlight where the various models fit into the entire process. Any of these models can be done independently, should the organisation wish to analyse only a specific aspect of the business, and therefore do not need to be done as part of the whole process.

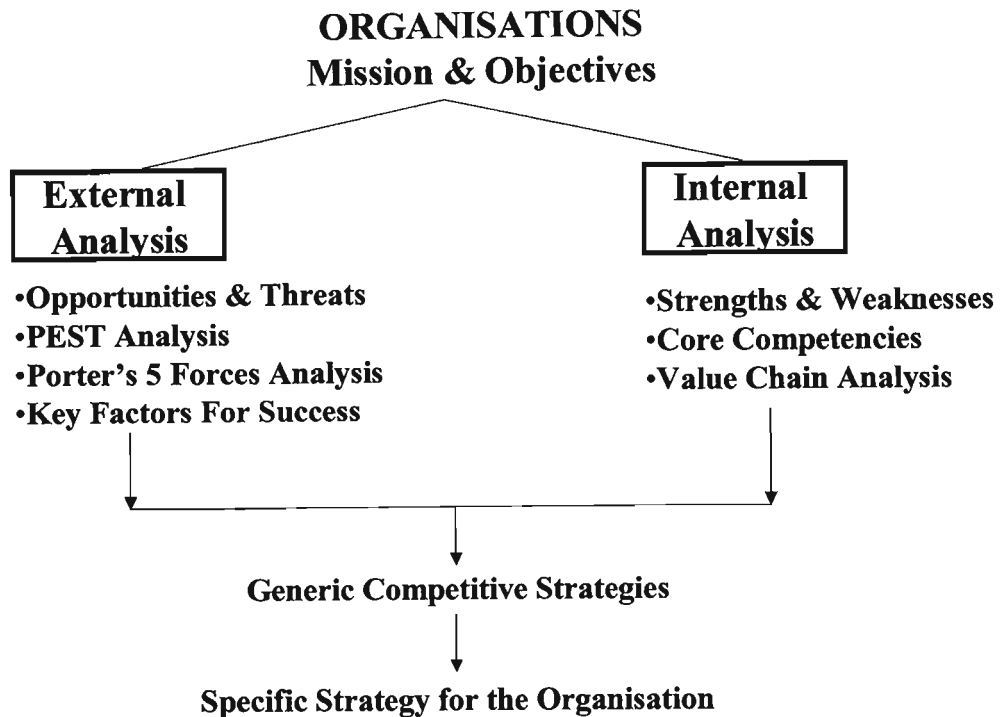


Figure 2.6 –Strategy Formulation Process

2.12 SUMMARY

We have discussed various theoretical models that should assist an organisation when analysing their internal and external environments. Most of these models, and many others are used by organisations when developing a strategy for the organisation, or when updating that strategy. One needs to remember that any analysis performed on the organisation is only as good as the detail and effort of the exercise. An organisation needs to analyse the environment in which it operates on a regular basis, as the market conditions are continuously changing.

Various models were discussed in the chapter and these include:

- **SWOT Analysis** – It is used to analyse the internal strength and weaknesses of an organisation, as well as the external opportunities and threats.
- **Core competencies** are identifying things that the company is better at than it's rivals.

- PEST Analysis – Provides details of the political, economic, social-cultural and technological environments that have an impact on the organisation.
- Porter's Five Forces Model – This model is used to analyse the competitive environment of an organisation. The model has five forces that affect the industry and the players within the industry, namely: the power of the suppliers, the power of the buyers, threat of new entrants, threat of substitutes and the rivalry amongst competing sellers in the industry.
- Key Factors for Success – These are the things that most affect industry members' ability to prosper in the market place, and are therefore the rules, which determine whether a company will be financially and competitively successful.
- Two portfolio matrixes are discussed, namely the McKinsey and life-cycle matrixes, which look at the industry attractiveness and industry maturity respectively.
- A Value Chain analysis is important, as it provides valuable new insights into the business.
- Any organization should attempt to seek a competitive advantage through a low-cost leadership strategy, a differentiation strategy or a focused strategy.
- Finally a strategy formulation process, figure 2.6, is proposed that combines all the models discussed in this chapter into a simple flow diagram for ease of reference.

CHAPTER THREE

CASE STUDY

3.1 INTRODUCTION

Since Old Mutual Properties (Pty) Ltd, was established in 1998, the different divisions within the organisation have been tasked to grow the business. This growth could be from identifying other opportunities within the Old Mutual Group, but preferably by providing property related services to clients other than Old Mutual, in order to reduce the risk of having a single client.

One of the divisions within OMP, is the Facilities Management Division, which has made a number of changes in the way it has operated over the last few years. The division has gone from outsourcing all the services, to recently becoming an active player within the FM industry. The division has done this in order to grow its skill base and it's offering to the market, which should allow it to grow in line with OMP's objectives. However there are still a number of issues that need to be addressed by both the company and the division in order to make the division become a market leader within the FM industry. In the case below we have tried to provide some background to the company and the environment in which the FM division operates which will assist us in analysing the company.

3.2 COMPANY HISTORY AND BACKGROUND



Old Mutual Properties (Pty) Ltd is a subsidiary of Old Mutual Plc, which is a broad-based financial services group, and is listed amongst the largest 100 companies on the London Stock Exchange. Old Mutual Plc has also recently been rated number 366 on the

fortune 500. The group has more than \$250 billion assets under management and is fast becoming a significant global player. It is the largest life assurer in Southern Africa, with a market share exceeding 30%. In banking, its subsidiary has the best earnings growth record and the lowest cost-to-income ratio of the 4 major banks. Old Mutual recently entered the banking market when Old Mutual Bank was launched. In short term insurance, Old Mutual is a market leader through its subsidiary Mutual & Federal. Old Mutual holds the number one position in unit trusts and is the largest fund management operation in Southern Africa. The Group also has leading market positions in Zimbabwe, Namibia and Malawi on the African continent. Old Mutual Plc is also a major player in, amongst others, Britain, India, and The United States of America. Old Mutual's global asset management arm has a strong base in London, where its performance ranks with the top fund managers. In the past two and a half years Old Mutual has acquired Capel-Cure-Myers, Albert E. Sharp, Gerrard, United Asset Managers in the USA and announced its entry into the Indian sub-continent.

Black shareholders in Old Mutual Plc (SA) are currently estimated to be in the region of 16%. (Internet 3) As a listed company this is difficult to measure, as shares in the company are continuously being traded. As with all companies within South Africa they must comply to the Employment Equity Act, however the company will also have to comply with the Financial Services Charter which is currently being negotiated with the government, and which aims to address the disparities in business, as a result of apartheid and the discriminatory laws.



FACILITIES MANAGEMENT

In August 1998, Old Mutual Properties (Pty) Ltd became a separate subsidiary within the Old Mutual group in order to offer clients outside the Old Mutual stable the wide level of skills and experience developed over time. Old Mutual Properties (OMP) is a dominant player in the South African and Namibian property markets; and also undertakes work

throughout Africa, for example in Zimbabwe, Swaziland, Kenya, Malawi, Egypt and Zambia.

Prior to becoming a wholly owned subsidiary of Old Mutual Plc, Old Mutual Properties had to prepare itself for the challenges of operating as a separate company and not only as a division within Old Mutual. As a result of this the staff within Old Mutual Properties was reduced from 1300 in the late eighties to around 130 staff members in 2001. The value of the properties under management has grown and currently stands at around R8 billion. Old Mutual Properties had previously employed all the staff to provide services such as building maintenance, cleaning, security, etc, but now only employs the requisite staff that is necessary to manage these outsourced services.

OMP is one of Africa's largest full-service commercial property firms and manages 4,500 tenants in over 3.2 million m² of office, industrial and retail accommodation. Over the last 4 years OMP have sold more than 250 properties worth more than R1.7 billion, more properties than any other landlord in South Africa. OMP has recently developed 280,000 m² of new retail space, which includes Gateway Theatre of Shopping and Menlyn Park Shopping Centres. These centres have a larger focus on entertainment than any other centre in South Africa, which has resulted in the changing face of shopping centres throughout South Africa. OMP was also the first property company in Southern Africa to develop multi-tenanted industrial parks instead of single tenanted industrial sites. Old Mutual Properties is part of a global enterprise and has been operating on the world stage for some years. They exhibit regularly at MAPIC and MIPIM, the premier property exhibitions in Europe. Staff members travel regularly, picking up on the latest trends internationally.

Following the creation of Old Mutual Properties (Pty) Ltd, Management Consultants were brought in to analyse the business and assist in the restructuring of the company. As the company had been part of the Old Mutual Life Assurance Society for many years and the mindset of the staff had to change from:

- A Landlord to a Property Services Company
- Being internally focused to being focused on the client and developing a growth culture;

- Being reactive to proactive;
- Serving a single client to servicing multiple clients.

The company was also restructured from having three divisions to having ten, which gave Old Mutual Properties the ability to offer all the various property services that are required in the property industry. Below is an organogram indicating the company structure. As indicated above, staff was retrenched, but additional staff with other skills were brought into the company to meet the requirements of the divisions that were created.

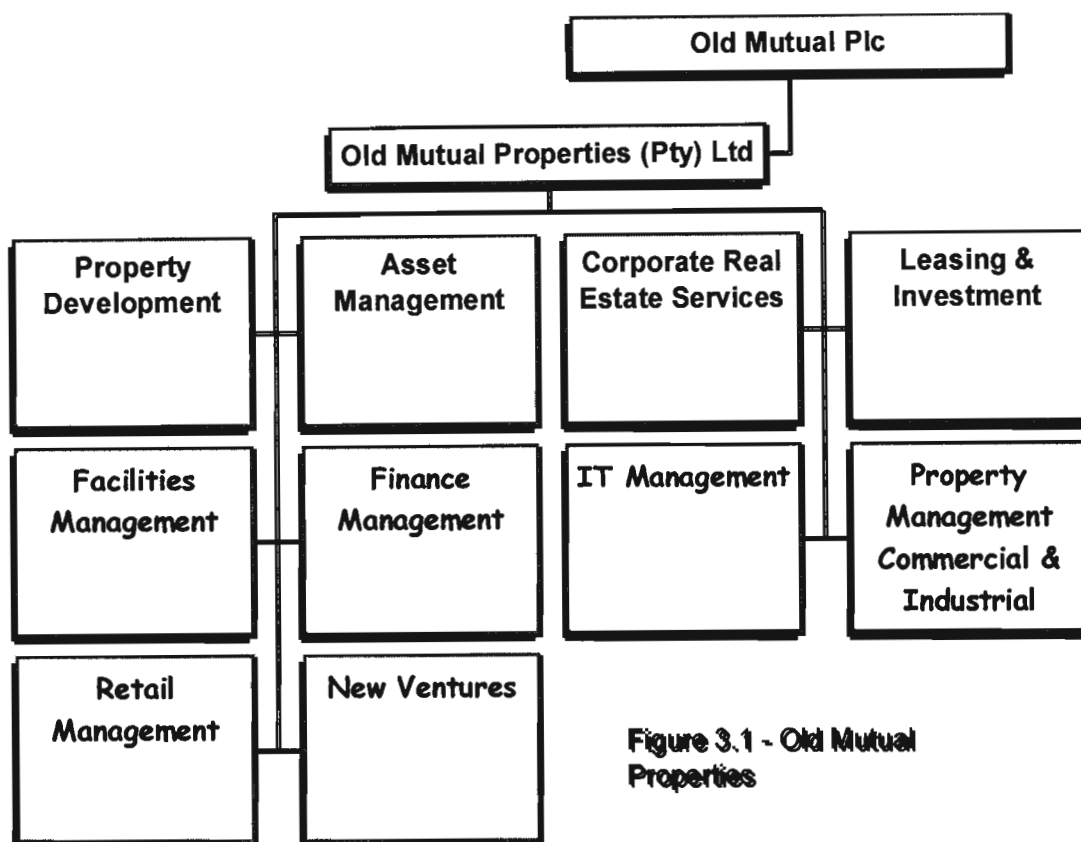


Figure 3.1 - Old Mutual Properties

Over the last four years the profits, before taxes, of the company have increased on average by 26 percent per year and similar growth is forecasted for the next financial year. Unless all the lines of business within the company grow its business aggressively outside of Old Mutual, the company will not be able to maintain its growth profile. A factor, which could have a major impact on the company's performance, is its high staff turnover, which is sitting at around five percent per annum. OMP must find ways to retain its staff, as it loses staff so it loses skills and experience that is both difficult and costly to replace.

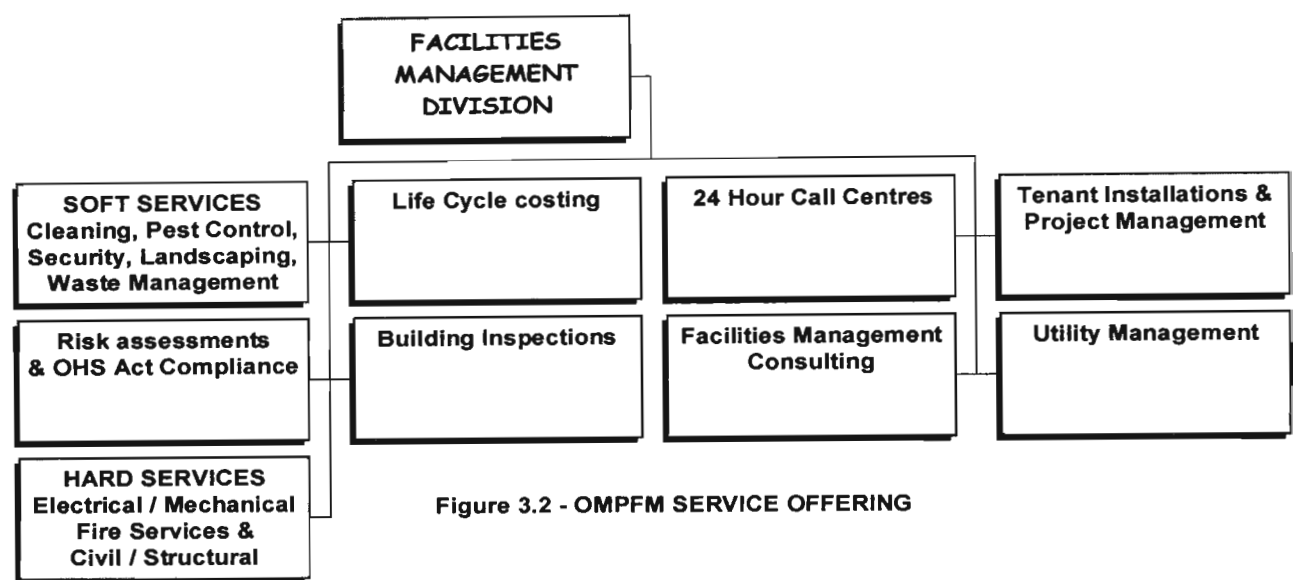
In line with its previous success OMP has set some very high objectives. These objectives can be achieved, however there are many issues that need to be attended to by the organization if these objectives are to be achieved. Some of these areas will be addressed during the course of the analysis in this chapter. These objectives include:

- Annual growth rate of 26%;
- Grow OMP's client base in order that within five years Old Mutual's business represents only fifty percent of OMP's total business;
- Grow and expose the business both locally and internationally;
- OMPFM is required to attain a growth of 32% per annum.

As can be seen from the above Old Mutual Properties has undergone a number of changes over the last few years, and this trend is likely to continue, as the company attempts to meet the challenges forced on it by the environment within which it operates. The company's senior management is predominantly white males, which will have to change if the company is to comply with the Employment Equity Act, and in its submission to the Department of Labour. This change at senior management could further impact on the performance of the company, as it could contribute to staff turnover, as the staff do not see any opportunities for their own growth within the organisation.

One of the divisions, which were created during the restructuring of the company, was the Facilities Management division. This division initially outsourced all of the facilities management functions and acted out the contracts management roles while it also provided facilities management consulting services to other clients. In November 2002, following a strategic management meeting, it was decided that OMP would not renew or re-tender the facilities management contracts, but that it would restructure this division in order to become an active player in the facilities management industry, and no longer act only as consultants. As the existing FM contracts were not being renewed, and the service providers could not accommodate the staff, OMPFM were in a position whereby experienced FM staff could be appointed, which reduced the risk of OMPFM in taking back an 8 billion Rand portfolio. This also meant that the skills base was improved and therefore OMPFM could offer a wider range of services to prospective clients.

The figure below highlights the services as currently offered to the market by the FM division. OMPFM now has branches in Cape Town, Durban, Gauteng, Nelspruit, and East London. *The Mission Statement for OMPFM is: “We strive to be the number one choice for facilities management consulting in Africa, dedicated to the continuing overall improvement of the assets & satisfaction of our client”*(Murphy R, “Blue Sky” Business Plan, 2002).



WHAT IS FACILITIES MANAGEMENT?

Facilities Management can be defined as the integration of multi-disciplinary activities within a built environment and the management of their impact upon people and the work place. This could mean a particular building or portfolio of properties, but extends beyond the normal property management functions, to that of more sophisticated service and technical services. Facilities Management therefore incorporates the outsourcing of any or all non-core activities to specialist operator/s (Stermer, 2000).

The move to facilities management is dictated by the client’s desire for one contact point for all building related requirements. An integrated facilities manager may specialise in

specific industry groupings, such as hard or soft services. The soft services refer to the less specialised services such as cleaning, security, waste management, pest control, hygiene and landscaping. These soft services, are sometimes incorrectly referred to as the soft services, as they have a great impact in terms of the individuals overall experience of the property. The hard services, on the other hand, refer to the technical services within a property and include the electrical and mechanical equipment within the property i.e. lifts, air conditioning, etc, as well as the building fabric. The hard services generally require the involvement of specialists.

The concept of Facilities Management has originated from the outsourcing of various services. As companies grow, facilities structures become duplicated, resulting in growing operational costs. The next phase, which is currently in play, sees the competitive pressures leading to the companies focus on core business operations and attempt to minimise costs. This focus on cost reduction and outsourcing of non-core activities has led to the development of facilities management. The soft services were generally the first services to be outsourced and this was then followed by the hard services. Initially outsourcing could lead to cost saving, however these savings would obviously depend on the nature and type of the service/s being outsourced. In the beginning companies were outsourcing for the cost savings, however this trend appears to have changed and companies are now demanding value add and not only cost saving.

The facilities management service provider may choose to provide some of the services that have been outsourced, or they may use other service providers to provide some of these services. The facilities management entity would then manage the provision of services and then liase between the client and the service provider. There is virtually no limit to the services that can be managed by a facilities management service provider, and very often these will also include services such as project management and consulting. The consulting could include the traditional mechanical and electrical services, to issues such as utility management. Most Facility Management players see themselves as business partners, and as such are becoming involved in projects from the inception and planning stage, through to managing the completed project as the experience Facility Management service provider could add a significant amount of value during all stages of the project.

3.4 FACILITIES MANAGEMENT INDUSTRY IN SOUTH AFRICA

Facilities Management has been present in South Africa for a number of years, in one form or another, but has recently gained momentum. As with most industries experiencing rapid growth, there are numerous new entrants in the market, who are attempting to establish themselves in one way or another.

Many traditional property management companies have restructured their technical services departments in order for them to provide facility management services in-house, as they believe that they are providing what the market requires. This is not necessarily at the same level as what is being provided in the market. The “in-house” facilities divisions are not often exposed to the demands made by other clients and therefore do not adapt their service offering, and in most cases it is the same staff that were part of the technical services department, that are now part of the new facilities management division.

Generally, Facility Management service providers have performance-based contracts with their clients, which clearly spell out the levels of service that is required. The internal facility management departments do not have any service level agreement, which generally leads to lower levels of service. Problems tend to be hidden when the service is provided in-house, where all service delivery issues are brought out into the open when the service is contracted in. Staff also tend to manage the contractor to which they have outsourced certain services much more effectively than they did their in-house team. The outsourced contractor / service provider comes with an invoice, which is scrutinized, whereas if the operation is in-house the costs are very often hidden and not scrutinized.

The number of new property developments have reduced over the past few years, resulting in a loss of revenue for the traditional engineering consulting practices, these practices are turning to the provision of facilities management services in order to augment their income. A number of architects, quantity surveyors as well as the engineering consultants have formed joint ventures in order to increase their service offering. Most, but not all, of these initiatives do not pose a major threat to the other

facilities management service providers, as these consultants tend to withdraw from the market as soon as the work flow in their specialist field increases. This was the case in the past when engineering consultants offered maintenance management solutions on the equipment they had installed. Traditional engineering consultant practices that have entered the FM market include amongst others, Africon and WSP.

Another trend within the FM industry is the provision of a “ Basket of Services”. The basket of services could be offered directly to the client or via the FM service provider. If the basket service is offered directly to the clients, this can be seen as lost opportunities and revenue for the FM service providers. Companies such as Servest and Bidserv who offer packaged services such as cleaning, security, landscaping, hygiene, etc, are combining the service offering at reduced costs to the client.

One of the problems in the facilities management industry at the moment is that some of the service providers are over selling their services in order to obtain the contracts and then under delivering. In the short term, this results in the growth of the business as contracts are awarded to these service providers, however, in the long term it could result in organizations rather restructuring their in-house services, instead of outsourcing their non-core activities. This short sightedness by some service providers could result in lost opportunities for the entire FM industry.

3.5 ECONOMIC EMPOWERMENT

As a result of apartheid and the discriminatory laws and practices that existed in South Africa prior to 1994, there are disparities in the provision of business opportunities, employment, occupation and income within the national procurement of goods and services and the labour market. It is the belief that these disparities have created pronounced disadvantages for certain categories of the population, and that mechanisms of redress must now be applied (Hurrienarian, 2003).

This is a major issue within the South African context at the moment, and can have a huge effect on the facility management service provider’s ability to obtain and maintain

contracts. In order to obtain any work from the South African government, parastatals i.e Telkom, South African Airways, etc or any large organisation FM companies will have to:

- Prove that they have shareholding from previously disadvantaged individuals, Coloured, Black, Women or Indian;
- Undertake procurement with previously disadvantaged individuals, or companies;
- Ensure that their management and staffing structures are representative of the local population;
- Comply to the Employment Equity Act and any amendments thereto;

There are many different ways, in which the above could be achieved, such as forming joint ventures, creating new business units with previously disadvantaged companies or individuals, forming alliances with other specialist companies and thereby maintaining a small labour force, etc.

3.6 MARKET SIZE AND GROWTH PROSPECTS

The size of the industry is governed by the scope of services that are included. Ilan Stermer from Barnard Jacobs Mellet Securities estimates the size of the facilities management industry in South Africa at between R50 to 100 Billion. These costs include throughput costs and are not pure revenue. However, based on international experiences, the size of the industry appears to be limitless. In theory the Facilities management service provider could manage any number of services, which could be defined as non-core activities. There is also no prescribed model as to what and how it should be managed.

No player within this industry, in South Africa, has gained a significant portion of this market. It is therefore simple to understand the attractiveness of the industry and its potential profitability. Some of the players who have been in the industry for some time have categorically stated that growth has been exponential and that future potential appears to be good, particularly as the facilities management industry becomes accepted

as a legitimate business partner and as the focus on core business operations and cost savings continue (Stermer, 2000).

The private sector appears to be much further down the road than the public sector with regard to outsourcing. An area where the public sector is becoming active, which creates huge opportunities for the facilities management industry, is that of Public Private Partnerships (PPP). PPP's are based on the concept of the public service awarding contracts, ranging between 15 and 25 years, to the private sector for the development of facilities and then the operation of these facilities thereafter. Typical examples of PPP projects include, hospitals, prisons, sewerage works, administration buildings, etc.

Growth in this industry will come from increasing the number and size of contracts and not from the margins achieved on the contract fees. The international norm for operating margins, on revenues net of throughput costs, appears to be around 5-6 percent, and there is no reason to believe why South Africa should be any different. Generally the margins in South Africa appear to be higher than this at the moment, and it should be noted that as the barriers to entry are relatively low, margins are likely to come down in the future.

Fees are generally agreed as one or a combination of:

- Fixed management fees – usually used with a new project when there is no history;
- A percentage of the value of the services managed under the contract;
- Based on cost savings achieved. The savings must be achieved without a decrease in the level of service delivered or without negatively affecting the lifespan of the equipment. However this is normally a short-term solution, as there are no infinite savings to be made.
- Risk and Reward – the client and the FM service provider share in the balance above a pre-set level of costs.

Contracts can either be negotiated or tendered. More and more contracts are being tendered as the clients and their consultant's come to understand the FM service offering. This is resulting in more competition amongst the FM players and could result in margins being reduced.

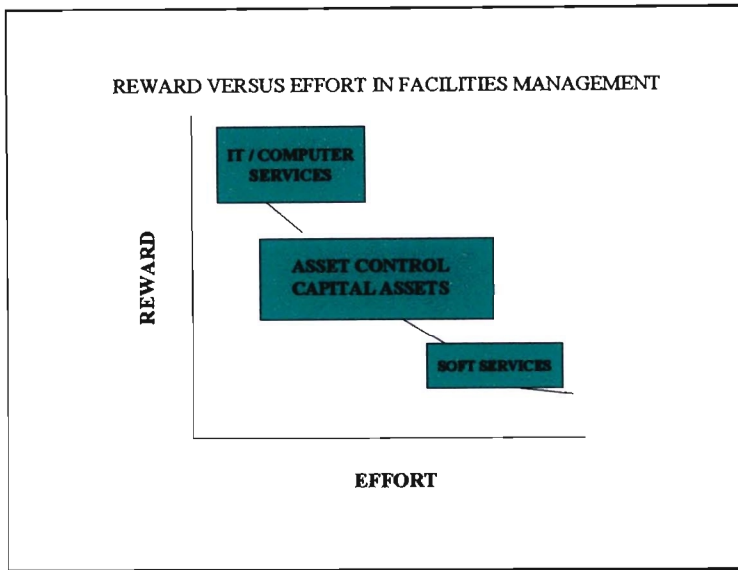


Fig 3.3 The chart shows that the bigger the physical effort, and presumably the less technically challenging, the lower the management fee the FM service provider can achieve.

3.7 LEADING FACTORS IN CHOOSING A FACILITIES MANAGEMENT PARTNER.

3.7.1 Presentation / Marketing: First impressions are lasting impressions. Therefore it is vital that the service provider's presentations and marketing are of a very high standard. What the company markets to prospective clients must be delivered upon, otherwise the relationship could be short lived. Very often the clients decisions are based on the tender documents received and the subsequent presentations, without doing a due diligence on the company they appoint.

3.7.2 Competence / Skills: As a client is outsourcing its non-core activities it would like to know that the level of service when compared to its in-house service is going to improve. The experience and skills of the FM service provider should therefore be equal to or better than the client's in-house staff. The FM service provider should have a broad skills base in order to cover all the services that are being offered to the client. Should the service provider not have the necessary skills within the company, they should then form an alliance with competent and skilled service providers in order to offer the service to their clients. Areas, which are often outsourced by the FM service provider, are, utility management, transport, legal services, etc.

3.7.3 Relevant experience in specific industry: Clients like to believe that their industry and operation is unique. The FM service provider should therefore endeavor to employ staff from the particular industry, as this would highlight to the prospective client that the service provider understands their business. For example, people from within the hospitality industry see their operations as being different to that within the medical or education industries. Clients want to know that they can enter into a partnership with a company that is going to add value to their operation.

3.7.4 Subcontractors used: Most of the FM service providers do not perform all the work themselves, but outsource this to contractors, and in some cases consultants. It is therefore important that they have good working relationships with contractors. This could also have an impact in terms of the price offered to the client. However, FM service providers should tender all the services for their clients on a regular basis, so that they know which contractors are offering what service in the market and what is the quality of service that is being offered.

3.7.5 Financial Standing and Backing: As most facility management contracts range from between three to ten years, and some even up to twenty years, the financial stability of the appointed FM service provider is vital. If the FM service providers finances are well managed this will provide some indication to the client as to how their finances will be managed. Some contracts require that the FM service provider purchase and pay for all equipment and labour and that the client then pays the service provider with a single payment on a monthly basis. The client may do this in order to reduce his or her own staff complement. The financial backing of the FM service provider is therefore important if they are to be seen as credit worthy by suppliers.

3.7.6 Call Centre Operation: This is seen as a huge growth opportunity within the South African market. In many cases Call Centre operations are offering their service to international companies. India used to be the Call Centre hub of the world, however their telecommunications systems are becoming overloaded and therefore many companies are moving their call center operations elsewhere. S.A has become an attractive option as South Africans have a very clear accent and the exchange rate offers a cheap alternative.

Facilities management service providers generally use call centres for their own FM contracts. The call centres could be used per client or the client could connect into the national call centers of the facility management service provider. These call centres are used to track the calls received, to monitor contractors' response times, to provide feedback to complainants, etc. The call centres should also provide information such as time taken to answer the call, number of dropped calls, number of calls per hour, per day, etc. The software used for these call centres must be easy and quick to operate, and able to generate reports for the clients. The call centres are also used to manage the computerized maintenance management systems from which purchase orders and works orders are issued. Generally a call centre can be seen as a key success factor in any facilities management operation.

3.8 SUPPLIERS TO THE FACILITIES MANAGEMENT INDUSTRY.

The suppliers to the facilities management industry include:

- Contractors that repair and maintain equipment as well as install new equipment for the FM service provider and their clients.
- Contractors that provide services such as cleaning, security, landscaping, waste management, etc
- Consultants that advise on legal matters, industrial relations, employment equity, as well as any electrical, mechanical or structural design or repair.
- Suppliers and / or wholesalers that supply material and equipment to the contractors and consultants used by the FM service provider or supply directly to the FM service provider.

It is important that the FM service provider maintains a good working relationship with the contractors and consultants, as through these relationships the FM service provider could add tremendous value to the clients operation, and the contractors or consultants could bring new opportunities to the table, especially through the relationships that they have with their clients, which the FM service provider does not have access to.

Servest & Bidserv: Both are suppliers to the FM industry, and other clients, and have chosen not to be active participants in the FM industry even though that are well positioned to enter the market. Both companies are providers of cleaning, security, hygiene, landscaping and laundering services to the industry. What the companies have done of late is to provide individual services as well a basket of services to the industry.

3.9 BARRIERS TO ENTRY

The barriers to entry within the facilities management market are generally low. The biggest barrier is the cost of setting up the businesses IT systems. This involves call centres, computerized maintenance management systems, document control systems, computers, servers, etc. As most contracts are awarded for a period of three years or more, the new organization entering the market can pay this off over the duration of the contract.

The second barrier to entry is the skills level of the organization's staff. However, should the organization not have the necessary skills or other resources, these could be contracted in by forming alliances with other organizations that have the appropriate skills level.

Customer loyalty is another barrier to entry for possible new entrants. The established facilities management service providers have developed relationships with certain customers, which will make it difficult for new entrants to enter the market, unless the existing service provider is not performing and the client is investigating their options. However, considering the age of the industry customer loyalty is not seen as a major barrier to entry at this stage.

The existing service providers, who have sizable contracts, have the edge over the new entrant, as they have greater bargaining power with their suppliers, and can then pass these onto their clients. Their suppliers, who have been dealing with them in the past, and have therefore established a working relationship, also trust them.

3.10 COMPETITIVE RIVALRY

Major competitors to OMPFM include, amongst other:

3.10.1 **Drake & Scull (Pty) Ltd SA**: Drake & Scull (D&S) are not a major player within the international facilities management market, but focus mainly on electrical and mechanical contracting. It is only in South Africa where they have established themselves as a major player. Drake & Scull have been active in South Africa since September 1996 when Old Mutual Properties awarded them their first contract. Drake & Scull South Africa is a joint venture between the The Tsebo Outsourcing group and UK based facilities management contractor EMCOR Drake & Scull Plc, which is a subsidiary of the EMCOR Group (www.fedics.co.za). This joint venture does create opportunities for D&S, especially with Fedics, a division of the Tsebo Outsourcing Group, being very well established within the catering industry. However, it does have its drawbacks, when D&S is awarded a contract as the facility manager and then expects Fedics staff to report to them. Through the Fedics shareholding in D&S they have a 25% black shareholding, which makes them competitive, but not the highest shareholding in the FM industry (Internet 1).

D&S have always been very active with their marketing, and have established themselves as the market leader within the South African industry, based on number of contracts and the size of these contracts. D&S have in the past limited themselves to tendering on contracts exceeding R1.5million per month. Their view is that given their limited resources, and the enormous potential of the largely untapped market, they need only focus on the larger contracts in order to attain high rates of growth. D&S generally follows a structured methodology in assessing their current and potential clients needs. The company also believes that they can manage virtually any non-core activity for its clients (Stermer, 2000).

D&S were recently awarded a twenty-five year contract at the Albert Luthuli hospital in KwaZulu-Natal, and also a contract to manage 1500 buildings for the Post Office. The Post Office contract was only awarded to D&S in July 2003, and as a result of the

number of properties and staff (950) involved, it could effectively remove them from the market until this contract has been settled.

D&S have recently established a procurements division that does all the procurement for Fedics and their clients. This initiative is used to provide their clients with possible savings and therefore adds value to the clients operation. Any cost savings are normally shared between D&S and their clients. A training academy has also been established by D&S where they offer courses on facilities management to companies and their staff.

3.10.2 Africon: Africon is a multi-faceted engineering consulting practice, which also provides project management services, and operates throughout southern Africa. This practice was established about 50 years ago. The company currently has a 22% black shareholding. The facilities management service falls within the Development Services and Project Management division, and was established about five years ago. At this stage the FM department is still very small and comprises about 20 staff in an organization totaling around 1100 employees. The facilities management team is backed by Africon's in-house information technology support system and is also backed by the company's engineering divisions (Internet 2).

Africon's facilities management team appears to serve as a unit by which the other business units can offer additional services to their clients, and therefore grow their business with that client. Africon does not actively market the facilities management team, and this would indicate that they do not view this as a core offering of the company, however they do offer the full range of services generally offered by the FM service providers in South Africa.

The management at Africon has divided the market into a number of segments i.e. public and private sectors. It believes that most commercial property portfolio contracts that are sizable enough to grant an operator economies of scale, have been allocated to FM service providers already. Africon had a sizable contract with Old Mutual Properties, but lost this contract about two and a half years ago when OMPFM re-tendered the contract. Management at Africon has stated that there appears to be much opportunity within the industrial, and public sector. Over the years Africon as Structural and Civil consultants

has been widely used by the public service. This is where Africon sees their biggest growth opportunities for growth of their FM team (Stermer, 2000).

3.10.3 Broll FM: Broll is a property management company that manages assets estimated at around 16 Billion Rand for various property owners. Broll themselves do not own any property, but manage the property on behalf of the owners. Broll recently created a Facilities Management Division by employing some staff from Colliers RMS. This division has not yet been properly set up, and is therefore not seen as major competition at this stage. However the organization does have the necessary financial backing, and should therefore not be discounted at this stage.

3.10.4 WSP Facilities Management: The Group offers a full range of multi-discipline services including planning, design, implementation, maintenance and operational advice. WSP Africa originates from an engineering consulting practice, and has recently extended its scope of services to include environmental and facilities management services. (Internet 4) WSP recently purchased Facilities Management (Pty) Ltd (FMG), who were awarded a facilities Management contract at the University of Natal till the end of 2003.

With the amalgamation of the Universities of Natal and Durban Westville this contract may either be renegotiated or tendered, as it was initially negotiated with FMG. WSP also has a national maintenance contract with Shoprite Checkers where they are responsible for the management of the maintenance of the electrical and mechanical plant and equipment within their stores. WSP has recently experienced problems with regards service delivery on a number of their contracts, both as engineering consultants and in their facilities management contracts.

3.10.5 Facilities Management Africa (FMA): FMA was established about five years ago. It is part of the Firstrand Group, and its principle shareholder is Rand Merchant Bank Properties. It also specializes in managing non-core activities on behalf of other clients, both technical and non-technical. FMA also owns the local rights to a number of overseas-developed building management systems, which are designed to manage contracts, as well as call centres and to maintain asset registers and maintenance specifications. FMA do have some engineering capabilities in-house, however it tends to

outsource most of the services required by its clients. Its clients include amongst other, Multichoice and M-Net, Engen and of course Rand Merchant Bank (Stermer, 2000). FMA's operations are predominantly based in Gauteng, and they have very small operations in KwaZulu-Natal (only one building), and in the Western Cape.

3.10.6 Rebserve: Rebhold entered the FM industry in about 1999. Its entry into the market was heralded by the award of the Telkom to a consortium of Rebhold's Rebserve and UK's WS Atkins. This ten year contract worth R1.5Billion per annum involves the consortium taking on the management of various support services at Telkom including cleaning, hygiene, equipment and plant maintenance, etc. The consortium must however deliver on this contract in order to be considered for other contracts. The success or failure of this contract could have a major impact on the industry as a whole (Stermer, 2000).

Through the above contract Rebhold is now attempting to bring hard and soft services in-house. Through the acquisitions of other companies Rebhold believes that it could bring with it additional contracts. Rebhold is in a sense attempting to become a hybrid in facilities management. The company is seeking to provide services such as cleaning and security in-house while managing FM contracts. The danger therefore exists that the organization will be split between its duties as a facilities manager and its inclination to pass business onto its own soft service operations. The dilemma is clear, the organisation wants to partake in the FM market but also wants the higher margins that are normally achievable in the provision of the soft services. In most instances, overseas companies have opted to be involved in either FM or service provision (Stermer, 2000).

3.10.7 Turner & Townsend -Consultants & Project Managers (T&T): As stated on their web site Turner Townsend provides a full range of consultancy services that are designed for their clients to maximize the development and management of their buildings and infrastructure and optimize utilisation of key resources. T&T is an international organization that has been active in Southern Africa, and has worked with the Botswana, Malawian, and South African governments as advisers on FM and Public Private Partnership (PPP) projects. Services offered by T&T include: Facilities Management, PPP consultancy, Project Management, Management Consultancy, Value and Risk Management, Health, Safety and Environmental Consultancy (Internet 5).

Other local players include: Johnsons Controls, Colliers RMS, Thloklomelo Management, LGM.

International Facilities Management service providers include amongst other: Johnsons Control (United States of America), Capita Group (United Kingdom), Hays plc (UK), Serco Group (UK), WS Atkins plc (UK), ServiceMaster Co. (USA), Sodexho Marriot Services Inc (USA)

3.10 SUMMARY

Old Mutual Properties, which is a wholly owned subsidiary of Old Mutual Plc was established in 1998, after it had been a division of Old Mutual for many years. With the creation of OMP the Facilities Management division was created. This division has gone through many changes and recently restructured itself so that it could become a player within the facilities management industry of South Africa.

Facilities Management incorporates the management of all non-core activities of an organization, which they outsource in order for the company to focus on its core activities. The FM industry in S.A. is still relatively new and one should still expect many changes to take place within the industry as all the various players fight for their position within the market. There are about ten serious players within the market. The major competitors being Drake & Scull, OMPFM, Rebservice, WSP, and Johnsons Controls, however there are many smaller companies all competing for a slice of the cake.

The market size is estimated to be in the region of 50 to 100 Billion Rand, including throughput costs. As the FM industry is still relatively new in S.A. the growth prospects are seen as very good. However the barriers to entry, for new competitors, appears to be very low, when compared to some capital intensive industries. It has now become vital for companies to firmly establish themselves in the market, if they want to be serious players, and increase their market share.

CHAPTER FOUR

CASE EVALUATION

4.1 INTRODUCTION

The assessment of the Facilities Management Division within Old Mutual Properties is carried out through various stages of analysis. We begin by defining the mission and objectives of OMPFM, as no other analysis can be undertaken if the direction of the company and the division is unclear. Market opportunities, threats, company strengths and weaknesses are evaluated through a SWOT analysis. It is shown that OMPFM has significant growth opportunities, while also experiencing a degree of weakness. A PEST analysis is undertaken in order to understand the remote environment in which OMPFM operates. This is followed by an analysis of the direct forces on the facilities management industry using Porter's Five Forces model and Key Success Factors for the industry are then identified. A competitor analysis is used to gauge the competitive position of OMPFM relative to major competitors in the industry. Finally, growth prospects are analysed through various matrices. It is shown that the company has very good growth prospects should certain weaknesses be eliminated and opportunities capitalised upon. To complete the analysis strategic options are proposed that will assist OMPFM in achieving its objectives.

4.2 OLD MUTUAL PROPERTIES FACILITIES MANAGEMENT DIVISION'S MISSION AND OBJECTIVES

The Mission:

The Mission Statement for OMPFM is: "We strive to be the number one choice for facilities management consulting in Africa, dedicated to the continuing overall improvement of the assets & satisfaction of our clients." OMPFM can therefore be seen to aggressively grow its brand within its current market, and to move into the larger African and World markets through brand equity and product / service quality to the satisfaction of their clients.

Objectives:

Financial objectives include:

- An annual growth rate of 26% for the company;
- The Facilities Management Division is expected to grow at a rate of 32% per annum.

These figures are the total earnings before interest and tax.

Strategic objectives for the company and the division:

- Grow OMP's client base in order that within five years Old Mutual's business represents only fifty percent of OMP's total business;
- Grow and expose the business both locally and internationally;
- Increase their market share through higher levels of customer satisfaction than their competitors.

4.3 SWOT ANALYSIS OF OMPFM

Figure 9 shows a weighted SWOT analysis, where in we examine what we consider to be OMPFM's more critical strengths and weaknesses and the more pressing environmental opportunities and threats. In addition to this, a few items that are not mentioned in the weighted analysis, as well as all the items listed in the weighted SWOT analysis will also be discussed in more detail.

4.3.1 Strengths

Old Mutual, Old Mutual Properties and the Facilities Management Division have many strengths, but not all of these strengths are often taken advantage of by the company. The strengths include:

- The *Old Mutual Brand* is very strong in southern Africa, as the company is well established in South Africa, Namibia and Zimbabwe. As a successful financial institution, which is growing internationally, the brand instills security and peace

Environmental change (OPPORTUNITIES & THREATS)	THREATS Competition from other established FM service providers	Loss of experienced and qualified staff to other FM Companies	Reduced profitability as clients understand the FM business	OPPORTUNITIES The opportunity to expand into international markets	JV or Alliance with Black Empowerment Partner/s	Work closer with other Old Mutual Businesses	+
STRENGTHS							
1) Financially stable with good access to funds	+1	0	0	+2	+2	0	+5
2) Old Mutual Brand	+3	-1	0	+2	+2	0	+7
3) Qualified and experienced staff	+2	-2	0	+3	+2	+2	+9
4) OMP operations throughout Southern Africa	+2	-1	0	+1	+1	0	+4
5) Long-term relationships with suppliers	+1	0	0	+3	0	+1	+5
6) Extensive database of information	+2	-1	0	+1	0	+1	+4
7) Established procedures	+1	0	0	+1	+1	+1	+4
WEAKNESSES							
1) Lack of technological infrastructure	-1	0	0	-2	-1	-1	0
2) Weak Empowerment credentials	-2	-1	-2	0	+3	-1	+3
3) Too reliant on a single client - Old Mutual	0	0	-1	+1	+1	0	+2
4) Poor Marketing	-2	0	-2	-2	-1	0	0
Environmental Impact Scores	+12 -5	0 -7	0 -5	+14 -4	+12 -2	+5 -2	
TOTAL	+7	-7	-5	+10	+10	+3	

+3	is a very good advantage in such a situation
+2	is a good advantage in such a situation
+1	is an advantage for such a situation
0	no impact

0	no impact
-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

Figure 4.1 - Impact / SWOT Analysis for OMPFM

of mind in the hearts of clients. As most of the Facilities Management contracts are between three and ten years this is an important factor.

- The *competency* of the facilities management team can be seen as strength. The team is well qualified, and experienced. Many members of the team have both technical and business qualifications. The team consists of amongst others, electrical engineers, mechanical engineers, civil engineers, quantity surveyors, and architects. Four of the engineers are also registered with the Engineering Council of South Africa.
- The *diversity* of the team enables it to provide a wide range of services, and the team members tend to compliment each other. The team includes both male and female staff members as well as staff from various race groups.
- OMPFM staff have a *good understanding of the FM industry*, and has been responsible for many of the innovations within the industry. As the team provides both consulting and facilities management services they understand the clients needs and wants and therefore tend to deliver a good service.
- The *moral of the staff is very high* at the moment, and this must be maintained, as this will ensure that the staff is prepared to go the extra mile for the company, and in many cases their clients. Many clients have already commented on the passion that the staff have for their work.
- OMPFM has got good *long-term relationships with many suppliers*, and they make good use these relationships in order to obtain new business. As a result of these relationships, the service providers or contractors understand OMPFM's requirements and therefore OMPFM is able to provide consistently high levels of service.
- OMPFM have a *proven track record*, and unlike other divisions within OMP have provided their services to a number of external clients.
- Access to finance and clients who want to enter into long-term relationships see financial stability of the company, as a major strength.
- OMP have *offices throughout South Africa*, which allows the company to offer a national service to clients.
- OMPFM has a large data base of information, which is used to control costs, compare the performance on various properties and the associated equipment, etc. This could potentially add enormous value to any clients operation.

- Established *procedures*. The company has many standard contracts, and other documents, which could be easily adapted to client's situations.

4.3.2 **Weaknesses**

As with any organization the company does have it's weaknesses, and these include:

- The *Old Mutual brand* may be very strong, however the OMPFM brand is not strong and needs to be aggressively developed. Many prospective clients do not know about Old Mutual Properties and the Facilities Management Division. The Old Mutual Brand can also work against the FM division as it is unlikely that competitors to Old Mutual, like Sanlam, Liberty life, Investec, etc, would appoint OMPFM on a facilities management contract. This can then provide opportunities for OMPFM's competitors to establish themselves in the market.
- The *senior management of OMPFM is mainly white males*. The profile of the team needs to change to include people from other race groups.
- As OMP is a subsidiary of Old Mutual, it basically has the same shareholders. It is estimated that Old Mutual Plc currently has a black shareholding of 16%. This is not sufficient if OMPFM plans to secure contracts from government, or other blue chip companies.
- OMPFM is currently too reliant on a single client, Old Mutual, for the majority of its income. This is a high risk situation for any company and highlights the need for OMPFM to secure work outside of the Old Mutual stable.
- A major weakness of OMPFM is the lack of *marketing*, which has taken place over the last few years. Companies will not approach OMPFM for tenders or contracts if they are not aware of the team's capabilities.
- OMPFM does not have established *technology* that has been implemented in the organization for computerised maintenance management systems, call center systems, procurement systems and energy management, yet it is offering these services to the market.
- All the divisions within OMP are not working together as a unit, and should be working towards the goals of the company and not only the particular division. Different divisions are not helping to develop each other, but are rather criticizing and continuously finding fault with other divisions.

4.3.3 Threats

This could be seen as anything that would have an impact on the company's profitability, and includes:

- As OMPFM have a very experienced and qualified team, there is a major risk of losing staff to other FM companies. This staff will then take with them knowledge of OMPFM's operations and impart this onto the new company. As the team loses staff it also loses the opportunity for obtaining new business, as the staff take with them the relationships that they have developed over time.
- Unsophisticated and sceptical client base, which needs to be educated. Clients could change from outsourcing to insourcing.
- Competition from other established FM companies. There could also be attacks against OMPFM in the market, as OMPFM is seen as a relatively new participant.
- Fees for services rendered may reduce in the future, as clients become more educated in the facilities management industry, therefore resulting in reduced profitability.
- Lack of experienced and skilled staff in the market, as OMPFM grows.

4.3.4 Opportunities

This is an important area, as it could reshape the company's strategy. Opportunities must be identified in terms of profitability and growth prospects.

- Most facilities management companies have a black shareholding of around twenty five percent. OMPFM could form an alliance or joint venture with some black empowerment partners, which could have a black shareholding of around fifty percent.
- Forming strategic alliances with other service providers, in order to provide any client with a "one stop shop" facility. The services could include energy management, space planning, interior design, etc.

- With the government that is privatising many of the state owned assets, such as Spoornet, Telkom, etc, opportunities will arise as they outsource many of the services in the future. Many tertiary institutions are being amalgamated into single operations, which will also create opportunities.
- As many of the larger organizations alter their strategies in order for them to focus on the core business activities, opportunities arise for the facilities management service providers.
- Old Mutual and it's sister companies like Mutual & Federal and Nedcor could potentially save millions of Rands if all of their facilities management services are provided by OMPFM, therefore keeping all the money in-house, thus increasing it's profitability.

As can be seen from Figure 4.1, the Old Mutual Brand and the experience and qualifications of OMPFM's staff appear to be the major strengths for the team, however the major weaknesses appear to be the, insufficient marketing currently undertaken by OMPFM and the lack of empowerment credentials. Major threats appear to come from the established competitors and the possibility of the loss of experienced staff. The market opportunities appear to be to grow the operation internationally as well as form an alliance or new business venture with black partners.

4.4 CORE COMPETENCIES

Core competencies are something that the company does well relative to other internal activities. It becomes meaningful when clients deem it to be valuable and it enhances the company's competitiveness.

One of OMPFM's core competencies is its staff. The staff is well qualified and experienced. Many of the staff has technical and commercial qualifications. As mentioned in the strengths of OMPFM above, the staff is motivated, and is passionate about the business and the potential that it has. It is this passion that drives them through difficult times, and it cannot be bought or copied.

OMPFM has strong business relationships with various service providers in the market, which enables the company to delivery high levels of service. Good relationships cannot be imitated. OMPFM is financially sound with a good record. OMPFM has the reputation to deliver a good quality service, whether it is in consulting or the provision of FM services.

4.5 PEST ANALYSIS

The PEST analysis provides a useful starting point in the analysis of the general environment surrounding the Facilities Management industry and also OMPFM. Although the items in a PEST analysis rely on past events and experiences, the analysis can be used to forecast the future through the identification of general trends.

4.5.1 Political Environment:

In addition to direct intervention in an industry, governments influence companies by a variety of other mechanisms such as regulation of public expenditure, competition policies, taxation policies and regional policies. These policies can have a major influence on the way companies' operate and their profitability. The company strategy needs to take into account the opportunities and threats that derive from government policies.

The South African government has over the past number of years implemented various laws that have had a dramatic effect on how the companies within the facilities management industry operate. These include amongst others, The Employment Equity Act, and The Labour relations Act. The latest amendments to the Labour Relations Act have also made it more difficult for companies to outsource some of their non-core activities. Recently the government introduced the Mining Charter, which was not well accepted in the international market. The government also wanted to legislate a Financial Charter, however, it has now stated that it would not be legislated, but would be negotiated with all the relevant parties. This charter is going to have a huge impact on the way Old Mutual operates.

The government has made its intentions very clear with regards the privatisation of state owned assets. Even though the process is taking longer than initially anticipated, the privatisation of these assets will go ahead, creating huge opportunities for the facilities management service providers. The Post Office recently outsourced the maintenance 1500 properties nation wide. However, in order to be appointed on some of these contracts, the company's Black Empowerment credentials should be good. The government analyses the company's shareholding, management structures, training as well as the company's procurement of services and equipment. The Old Mutual Group is working hard at getting the correct management structures in place, ensuring that training of staff takes place, as well as ensuring that where possible procurement is done with previously disadvantaged companies and individuals. As Old Mutual is a listed company, shareholding is difficult to calculate, and cannot just be passed onto empowerment partners. Old Mutual may therefore have to investigate ways of ensuring that empowerment take place within its subsidiaries. OMP and OMPFM are ideal candidates for black empowerment ventures.

4.5.2 Economic Environment:

The general economic situation within the country has improved and it appears as if sound economical principles have been established. An example is the Rand, which has been the strongest performing currency in the world this year. However South Africa does have a very high fluctuating currency, which makes it difficult to attract foreign direct investment. Inflation and interest rates are on the way down, which should stimulate economic growth within the country.

The government has increased its expenditure on infrastructure, and this trend is expected to continue, especially with the upcoming elections in 2004. Much money is also being spent by government owned institutions like Spoornet and Portnet, to upgrade their facilities. The government is looking to the private sector to assist it in upgrading and maintaining its infrastructure, as it does not have the resources to do it alone. This creates opportunities for OMPFM.

Unemployment, however, remains very high in the country, and is contributing to the high crime rate. It is not only the unemployment that is a problem, but also the fact that

the unemployed are also unskilled labour, making it very difficult for them to find job opportunities. The productivity rate achieved by South African companies also lags behind other developing countries in the world. These two factors have a negative impact on the countries ability to attract foreign investment.

4.5.3 Socio – cultural Environment:

National culture and values govern both the style and content of the way business is carried out internationally. South Africa has gained a reputation for being a very corrupt society, and the current investigations into the country's arms deal is not helping to improve this perception. Both government and business need to eradicate corruption from society. Many business transactions are still based on what individuals obtain from the deal, however this can be seen as a short term means to obtain additional business.

South Africa has the highest number of HIV / AIDS infected people in the world, yet the government does not seem to want to acknowledge this and treat the people in an attempt to reduce the impact that it is going to have on the economy of this country. Many companies, including Old Mutual, are addressing the problem, as they understand the impact that it is going to have on the business and the profitability of the business.

4.4.4 Technology:

Given the pace of change over the last twenty years, technology is playing an increasingly important role in the development of sustainable competitive advantage. New technology developments are just as likely to alter the vision and purpose of the organisation as any other area. They can extend and enhance the existing position of the company. OMPFM will have to undertake a survey of their existing technologies and secondly develop a technology strategy, as this has been highlighted as a weakness of the company. OMP generally relies in MRI, a financial management package to manage the various operations. OMPFM needs to have reliable call center systems, and maintenance management systems. The other option available to OMPFM is to outsource their call center operations. Most facilities management companies do have some systems to manage their and their clients operations, therefore OMPFM must first implement

systems equal to their competitors, and then identify ways in which they could possible gain a competitive advantage through the technology they use.

4.6 PORTERS FIVE FORCES ANALYSIS

Porter's five forces model has been utilised to analyse the competitive environment in which OMPFM operates. This analysis will systematically diagnose the competitive pressures surrounding OMPFM, assessing how strong and important each component is.

4.6.1 Suppliers Bargaining Power – Low

The main concern here is the bargaining power of suppliers. In the case of OMPFM the suppliers include: 1) Contractors for the repair and maintenance of plant and equipment; 2) Contractors that provide services such as cleaning, security, landscaping, waste management, etc; 3) Professional Consultants and 4) Suppliers of material.

OMP currently manages a property portfolio worth in excess of R7.5 Billion Rand, comprising about 311 properties, for Old Mutual. OMPFM is involved in the management of this portfolio, and is also responsible for a number of other properties for other clients. OMPFM is also active in the market as consultants, advising clients on what service providers to use. OMPFM therefore has bargaining power over many suppliers, and in some cases can negotiate better rates for its clients than what they are currently paying. This may not be the case for all the other FM service providers. Drake & Scull does however offer its clients bulk procurement incentives. Servest and Bidserv are providers of cleaning, security, landscaping, and waste management services, and do offer discounts to clients if they utilise more than one of the services that they offer.

4.6.2 Buyers Bargaining Power – Medium

Buyers can be seen as the customers of the organisation. The duration of the majority of facilities management contracts range between three to ten years, and in some cases fifteen years. The longer the duration of the contract the more bargaining power the buyers of the service will have. However, most service providers know that if they

secure a long-term contract, there will be scope creep and therefore their potential to earn higher fees will increase. Generally most of the larger contracts are tendered, which means that the customer will obtain a competitive and market related price for the original scope of works, but once the contract is awarded all the extra work is based on a negotiated rate. This allows the service provider to increase their profitability over the duration of the contract.

Currently most of the buyers of facilities management services do not clearly understand what they are buying, and what the contract includes, therefore the FM service providers are able to charge a premium for their services. However as the buyers knowledge of the market increase, so will the price demanded by the FM service providers decrease. Many of the clients, or the consultants that they use, do not have benchmark prices, which makes it very difficult to compare prices, and ensure that they are receiving a fair price. The tendency now is for the FM service providers to provide a detail of costings with an indication of mark-up.

The switching cost for buyers, in the case of a medium to long-term contract, can be reasonably high. These switching costs are high as, the buyer and his staff become dependant on the services offered by the FM service provider, the FM service provider knows and understands the clients operation and unless the client takes the necessary measure at the beginning of the contract the FM service provider will control all the company's data. Therefore unless the current service provider is under performing the buyer will not necessary consider changing to another service provider.

The bargaining power of buyers can therefore be seen as a medium force. It can also be seen that once a contract has been awarded to a particular service provider, it may be difficult for the client to change service providers. There are opportunities for OMPFM to secure contracts and then to increase its profitability during the course of the contract.

4.6.3 Threat of Substitutes – Low

A substitute is something that meets the same needs as the service provided by the facilities management industry. The service offered by Servest and Bidserv can be seen as substitutes for the service offered by facilities management service providers. These

companies offer a basket of services to the client and then include it in their cost as a management structure to oversee the service being provided. Currently they only offer the softer services, but as the companies strategy change, so could the service offering increase. OMPFM needs to monitor the service offering of these companies carefully.

Firms of professional engineering consultants, architects and quantity surveyor are also looking at ways to grow their practices. As these firms are involved in the development of new properties, and the installation of the plant and equipment within these buildings, they then offer to manage the maintenance of these properties on behalf of the client. This is not seen as a very large threat, however the situation needs to be monitored, as this is where FM service providers like WSP and Africon originated.

4.6.4 Threat of New Entrants – Medium to High

Barriers to entry in the facilities management industry are generally low; therefore the threat for new entrants can be seen as medium to high. Limited capital is required in order to establish a facilities management company. The new entrant could start by managing small contracts that do not require huge investment. Some clients do not require the use of call centre facilities, detailed reports, energy management services, etc. It is for this particular reason that OMPFM must offer a range of services, so that it could meet the needs of a wider range of customers.

However, experienced staff is required to manage some of the operations and provide a good level of service. Experienced staff could be difficult to source as most are attracted to the larger service providers, which can provide them with job security, and as the FM industry is a relatively new industry, there are not many skilled people available. Any company that is serious about entering the facilities management industry must also have the right empowerment credentials; otherwise they will not be in a position to obtain any large contracts.

4.6.5 Competitive Rivalry within the Industry – High

As the facilities management industry is a relatively new industry, which is rapidly growing, there have been a number of new entrants of late. These include OMPFM and

Broll FM. OMPFM was previously involved in the industry, but only as consultants. Many of the FM service providers are still trying to stamp their authority onto the market, as they position themselves within the market. This creates a fair amount of rivalry, as many of the service providers are still establishing a client reference list.

Rival companies know that the companies switching cost are high, so this increases the competition for new contracts. The fact that the large players tend to imitate each other in terms of product offerings, variety and strategic moves, proves the competitiveness in this industry. As companies try to imitate each other OMPFM will have to differentiate itself in ways that are difficult to copy.

Stermer, from Barnard Jacobs and Mellet, estimated the market size at between fifty and one hundred Billion Rand, in 2002. These costs include throughput cost. Even though the market size is fairly large, this should in theory reduce the rivalry, but as this is a new industry, competitors are fighting for every slice of the cake, in order to grow their businesses and be established as one of the market leaders.

4.7 KEY FACTORS FOR SUCCESS (KFS)

An industry's key success factors are those things that most affect industry members' ability to prosper in the market place, and are therefore the rules, which shape whether a company will be financially and competitively successful (Thompson & Strickland, 2003). They are related to the industry and are unlikely to provide differentiation between organizations in the industry (Lynch, 2000). However, being distinctively better than rivals on one or more key success factors presents a golden opportunity for gaining competitive advantage. It is these factors that are discussed below.

Quality of Service Delivery – In order to achieve customer satisfaction, OMPFM must ensure that the end product is what the customer wants and that the quality of the service remains consistent, and does not constantly change. Very often the client's perception of what is in the contract is different to that of the service provider. Once OMPFM has been awarded a contract it needs to undertake training with the client's staff as well as with it's own staff, so as to ensure that all the parties understanding of the contract is the

same. Another problem with service related contracts is parties who will not be involved with the management of the contract, often negotiate them. This is another reason why training is so important. OMPFM needs to ensure that the manager who is responsible for the negotiation of particular contracts is also involved in the implementation phase of the contract.

OMPFM also needs to ensure that it has control over its entire supply chain. Contractors and other service providers have a huge impact on the quality of service delivery. They need to understand what needs to be done and by when. The contractors need to be well managed so as to ensure continued improvement of service delivery.

Staff Skills – In order to provide excellent service to customers on an ongoing basis, staff need to be well trained, motivated and understand the customer's demands. The staff from OMPFM together with the Retail Management division of OMP is being provided with customer relationship training on an ongoing basis. The staff from OMPFM has good technical skills, but OMPFM must ensure that they also have good people skills.

Brand Equity / Marketing – OMPFM needs to create a national awareness of their product/s, as they are competing against other established brands. Companies such as Drake & Scull have developed strong brand equity and have turned their marketing abilities into a competitive advantage for themselves. Old Mutual has a strong brand within Southern Africa, but OMPFM need to actively market its services.

Organisational Capability – All FM service providers should have information systems in order to perform their management functions and provide the clients with the information they require. OMPFM needs to ensure that it has superior information systems than that of its competitors, so that through these systems they could supply it's clients with a superior service. OMPFM has the back-up of all the other divisions within OMP, which many of the other FM service providers do not have. OMPFM needs to ensure that it uses the services of the other divisions in or to create a competitive advantage.

Strong Financial Position - As the duration of many of the FM contracts exceeds three year the clients require assurance that the company will be around during the period of the contract and not experience any problems. Many of the clients expect the FM service provider to pay their contractors directly, and then claim the money back from them. The contractors will not trust the FM service provider if they are not a financially sound company. Clients also want to know that the FM service provider is going to grow during the contract period, in order to provide value add services. They will want to know that the service provider has access to capital for the growth of the company.

4.8 OMPFM’s VALUE CHAIN

The company’s value chain identifies the primary activities that create value for customers and the related support activities. The purpose of this evaluation is to identify places where value is being added and possible areas where more value could be added in order to ensure that the company operates at an optimum level.

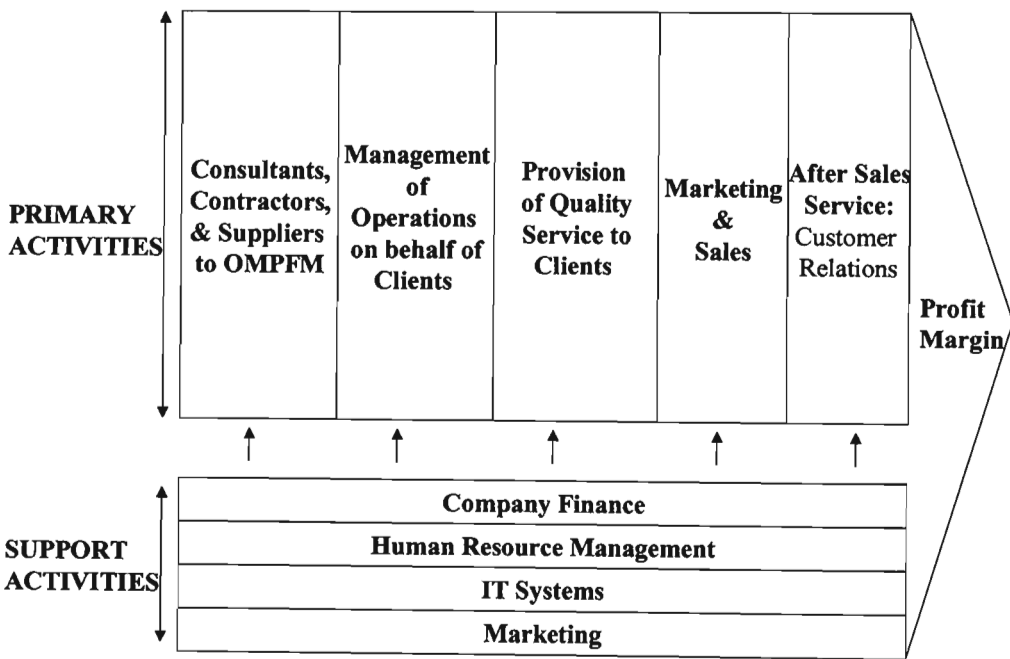


Figure 4.2 – Value Chain for OMPFM

4.8.1 Support Activities OMPFM

In the case of OMPFM the support activities can be seen as those internal activities that support the team in providing a service to clients. In OMP all line managers are responsible for the human resource management of their respective teams. That is, they are responsible for recruitment of staff, training, etc, as well as ensuring that the moral within the team is high, and that the staff are motivated. OMP's human resource department consists of a human resource manager and her secretary, and they only provide a human resource consulting service to the line managers. They are also responsible for the human resource strategy of the company.

With regards finance, OMPFM has financial staff in each region, so as to ensure that there is control of the expenditure budgets both for the division and external clients. The staff are responsible for the processing and payments of contractors invoices, financial reporting, and provide an auditing function. The financial department of OMP, generally look after the company finances and ensures that the company operates according to the Old Mutual financial policies and GAAP.

The IT department within OMP is responsible for providing and managing the IT infrastructure from which the company operates. Should OMPFM have specific requirements, these need to be approved by the IT department, but managed by OMPFM staff. OMPFM is responsible for its own marketing and sales, however OMP does employ a marketing manager who manages the marketing for the company and advises and assists the various divisions with their marketing.

4.8.2 Primary Activities

In order to provide a service to Old Mutual and other clients, OMPFM firstly, needs to procure the services of consultants or contractors, who need to maintain or replace plant or equipment within the properties that they manage. Equipment and material also need to be purchased. OMPFM needs to ensure that they obtain the best possible prices for the appropriate level of service. OMPFM does not procure any services or equipment on a national basis, and this must change, so that it can take advantage of the economies of

scale. OMPFM could make use of bulk procurement in order to create a competitive advantage in the market.

Once the services or equipment has been procured, OMPFM must manage these services. In order for the services to be properly managed, OMPFM must ensure that they have the necessary resources in place. These resources could include amongst others the staff, IT systems, office equipment, etc. Staff need to be trained in the technical, as well as the commercial aspects of the business.

OMPFM together with the various other service providers needs to ensure that they provide their clients with a quality service. Quality documents or reports need to be submitted to the clients, as these are often circulated within the client's organisation.

Key people within the team need to be identified to undertake the marketing and sales functions. It is important that the sales team knows and understands the facilities management market, as well as OMPFM's offering. OMPFM needs to understand the client's needs and frustrations. People will rather give up the pain in their life, than the joys that they are experiencing. It is these "pains" in any organisation that should be targeted by OMPFM.

Client surveys need to be undertaken on a regular basis in order to understand how the client perceives the service that they are receiving. Perception is reality, and therefore needs to be addressed. It is far cheaper to retain existing clients that to continuously seek for new clients to replace the old ones.

And, finally, the more value that could be added through the entire value chain, the more satisfied customers will OMPFM have and the more profitable the division will be.

4.9 COMPETITOR ANALYSIS

A competitor analysis has been undertaken in order to determine who the biggest threat is to OMPFM and also in what market segments they operate within. This analysis could assist OMPFM in differentiating itself in the market.

4.9.1 Drake & Scull (Pty) Ltd SA

Drake & Scull (D&S) is currently the most dominant player in the local FM market. They were recently awarded a contract with the Post Office to manage 1500 buildings around the country. This contract is going to place huge pressure on D&S, as they need to take over about 950 staff members from the Post Office and then still ensure smooth transition of management. This contract ensures that D&S has a presence throughout the country, and not only in the major centres of Durban, Cape Town and Johannesburg. This contract together with the Albert Luthuli Hospital contract does ensure that they have a good base to work from.

D&S have always been very aggressive with their marketing. This has ensured that they have grown their business in South Africa. In May 2003 their contract with OMP was not renewed. They have therefore had some losses and some gains of late. Recently D&S established a FM Training Academy and a procurements division, indicating that they are always on the look out for opportunities. They can be seen as one of OMPFM's greatest competitors, and they do have extensive knowledge of OMP following a period of seven years in which they provided FM services to OMP.

4.9.2 Africon

Africon is one of the traditional engineering-consulting firms that have entered the FM market. FM does not appear to be one of the core focus areas of the company. The FM operation falls within the Development Services and Project Management Division of Africon. The FM operation tends to feed off opportunities created by their other divisions, and is not aggressively marketing its services in the market. Africon has very strong relationships with the government, and this is where it sees most of its opportunities in the future.

4.9.3 Broll FM

This is a new division within Broll, and was established about three months ago. They currently have about four staff members. They are actively marketing their services in the market, even though they do not have all their systems in place. The company does have the financial backing to develop this division should they wish to become a major player within the industry. They are not seen as a major threat to OMPFM at this stage, but they should be monitored carefully.

4.9.4 WSP Facilities Management

WSP is another traditional engineering consulting firm that has entered the FM market. The company has recently diversified into other areas such as facilities management and environmental management. Unlike Africon, WSP has created a FM division and is aggressively pursuing new business. Two of its larger contracts are with Shoprite Checker and The University of Natal. Like D&S and OMPFM they have offices around the country. They can be seen as major competition for OMPFM.

4.9.5 Facilities Management Africa (FMA)

FMA is a subsidiary of Rand Merchant Bank Properties, and like OMPFM specialises in FM. FMA has developed the technological side of its business, and now owns the local rights to a number of building management systems. The company appears to be following a horizontal integration route, by diversifying into areas other than facilities management. FMA operates predominantly in Gauteng, but does have small operations in KwaZulu-Natal and the Western Cape.

4.9.6 Rebserve

Together with WS Atkins Rebserve was awarded a ten-year contract with Telkom in 1999. The company want to participate in the FM industry, however they also want to provide contracting services on the same contract where they are appointed as facilities managers. The company cannot be “poacher and gamekeeper” at the same time, and it will have to decide in which industry it wants to focus all it’s efforts. They do not appear to be major competitors to OMPFM at this, however they need to be monitored so as to see what strategic direction the company will take.

4.9.7 Turner & Townsend -Consultants & Project Managers (T&T)

T&T is a management consulting company that attempted to enter the FM market in South Africa, but soon decided to focus its efforts on consulting. They have acted as advisers to the South African and Botswana governments on various contracts. OMPFM do compete with T&T in the consulting of FM services. However OMPFM will need to develop a relationship with T&T so that they know & understand what services OMPFM can provide, in the event of them consulting to any government or other company.

4.10 PORTFOLIO MATRIX

We can now analyse the attractiveness of the industry, in it's ability to generate above average profits, taking into account the results of the SWOT analysis, OMPFM's competitive standing and an analysis of the environment we are able to say, that OMPFM is a strong business, operating in an attractive industry. Out of this, flows the strategic suggestion from which OMPFM can invest and grow.

4.10.1 The McKinsey Directional Policy Matrix

Plotting the above into the McKinsey Directional Matrix, we find the environment with regards to industry attractiveness to be high. Business strength is also as highly attractive.

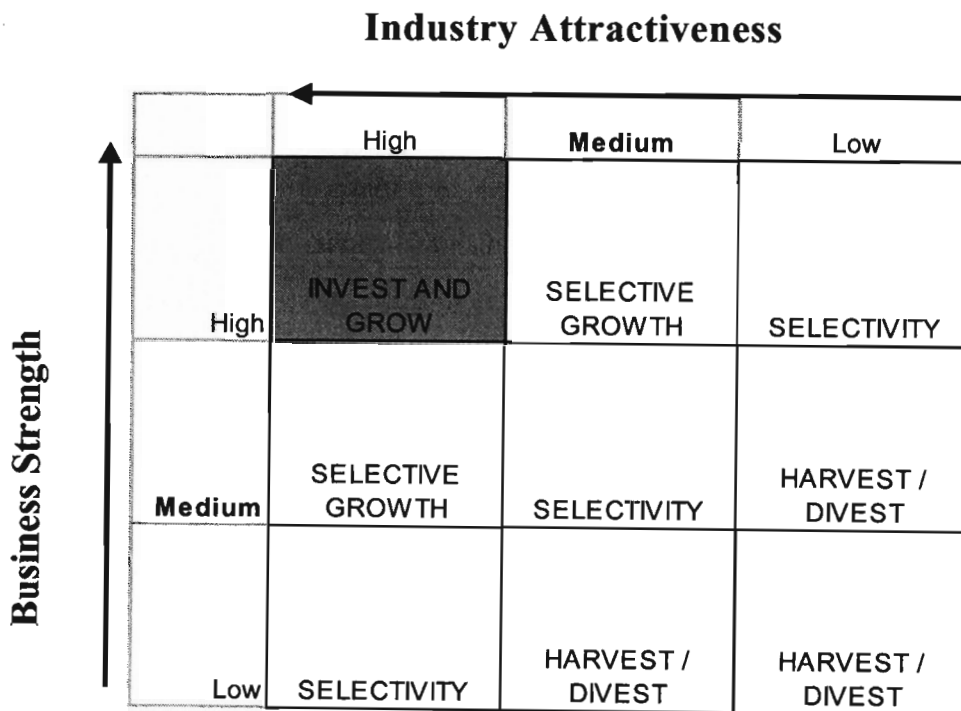


Figure 4.3 – Mckinsey's Directional Matrix for the Facilities Management Industry and OMPFM

OMPFM should take advantage of the attractive industry and aggressively grow the business. It may require investment into staff as well as other resources such as technology.

4.10.2 The Life-Cycle Portfolio Matrix

The purpose of this matrix is to identify strategic options for the firm. The facilities management industry is in a growth phase and OMPFM is in a strong position within the market. OMPFM should aggressively attack the market in order to grow and catch up with some of the competitors. OMPFM needs to continuously monitor its costs, to ensure its competitiveness and profitability. The company also needs to find ways in which to differentiate itself in the market, so that it does not always need to compete on costs.

		Stages of Industry Maturity			
Competitive position		Embryonic	Growth	Mature	Aging
			Fast grow	Defend position	Defend position
		Fast grow	Attain cost leadership	Attain cost leadership	Focus
	Dominant	Start-up	Renew	Renew	Renew
			Defend position	Fast grow	Grow with industry
		Start-up	Fast grow	Attain cost leadership	Find niche
		Differentiate	Catch-up	Renew	Hold niche
	Strong	Focus	Attain cost leadership	Focus	Hang in
		Fast grow	Differentiate	Differentiate	Grow with industry
				Grow in industry	Harvest
			Differentiate	Harvest, catch-up	
		Start-up	focus	Find niche, hold niche	Retrench
	Favourable	Grow with industry	Catch-up	Renew, turnaround	Turnaround
		Focus	Grow with industry	Differentiate, focus	
				Grow with industry	
			Harvest, catch-up		
		Find Niche	Hold niche, hang in	Harvest	Divert
	Tenable	Catch-up	Find niche	Turnaround	Retrench
		Grow with industry	Turnaround, focus	Find niche	
			Grow with industry	Retrench	
		Find niche		Withdraw	
	Weak	Catch-up	Turnaround	Divest	Withdraw
		Grow with industry	Retrench		

Figure 4.4 – Life Cycle Matrix for the Facilities Management Industry and OMPFM

4.11 COMPETITIVE STRATEGIES

Any long-term company strategy should attempt to create a competitive advantage. The company could either create a competitive advantage through, a low-cost leadership strategy, a differentiation strategy or the focused strategy.

4.11.1 Low-Cost Leadership Strategies

If a company wishes to gain a competitive advantage with a low-cost leadership strategy, the company's total costs across its value chain must be lower than its competitor's costs. Although the rivalry amongst competitors in the FM industry is fierce, the companies are hesitant to enter into a price war. Competitors rather look at offering clients incentives on savings achieved, and that way both the client and the FM service provider end up winning. However, what OMPFM needs to do is to ensure that it manages its costs effectively to ensure that it could counteract any low-cost leadership strategy by another FM service provider. OMPFM has got the buying power, which should assist in controlling the cost of its suppliers of services and equipment. OMPFM needs to control its internal costs if it wants to maintain its profitability.

4.11.2 Differentiation

The essence of differentiation can be seen as being unique in ways that are valuable to the customers and that can be sustained. To be successful with a differentiation strategy OMPFM must analyse its clients and potential clients in order to determine what their needs are, what they consider to be important, what they think has value, and what they would pay for the service. The most appealing approaches to differentiation are those that are difficult and / or expensive for competitors to imitate. Sustainable differentiation is normally linked to the core competencies, unique competitive capabilities and the superior management of the value chain activities of the organisation.

This strategy is recommended for OMPFM, as there are many ways in which it could differentiate itself in the FM market. These could include:

- Flexibility – OMPFM need to develop a service offering that could be adapted to a particular client's needs and what they can afford. A common approach amongst FM service providers is to provide a comprehensive service, however many clients do not require this full range of services.
- Black Economic Empowerment – The majority of OMPFM's competitors have black empowerment shareholding of between twenty-five and thirty percent. OMPFM, through Old Mutual only has a black shareholding of about sixteen

percent. OMPFM therefore has to form joint ventures or form a new entity with black partners, which could provide OMP with a vehicle that has about fifty percent black shareholding, and that could then grow the business aggressively. This would be both costly and take time for rivals to imitate.

- Skills & Experience – OMPFM already has a team that is well qualified and experienced. It is seen as the most competent team in the industry amongst its competitors. OMPFM must continue to develop this area that has given them a competitive advantage in the market, however they need to actively market this area so that it could become a major differentiator in the market.
- Old Mutual Brand – This is a well-established brand in the market, and provided comfort to clients. It is costly and time consuming to develop a brand, which is an advantage to OMPFM.
- Procurement – OMPFM manages a large portfolio, and it need to take advantage of its purchasing power. This needs to be aggressively developed as it could create opportunities for OPMFM to generate extra income as well as provided value add services to its clients.

Differentiation will therefore enhance the profitability of the company, whenever the extra price commanded outweighs the added costs of achieving the differentiation. Therefore even though OMPFM needs to follow a differentiation strategy it must not lose sight of cost control.

4.11.3 **Focus Strategies**

A focused strategy occurs when the organisation focuses on a specific niche in the market place. This is not what OMPFM wants to do at this stage, as they are a relatively new entrant in this growing market. OMPFM first needs to grow the business before they focus on a particular market segment.

4.12 SUMMARY

In this chapter various models have been used to analyse OMPFM and the environment in which it operates. An internal analysis was performed on OMPFM using the strengths and weaknesses of the SWOT analysis, core competencies, and the value chain, while

the opportunities and threats of the SWOT analysis, PEST analysis, Porters Five Forces and the key success factors was used to analyse the external environment of OMPFM.

The FM division of OMP was found to have a number of good strengths, and the quality of their staff appear to be a major asset to the company. The Old Mutual branding has both advantages and disadvantages, and the Old Mutual branding should be retained, but ways should be found to limit the disadvantages. A weakness, which is also a threat, is the lack of empowerment credentials. Black economic empowerment should be addressed as a priority by OMP. Well-qualified and experienced staff can be seen as OMPFM's strength; however, this strength is also a threat, as there is concern that the staff may be head hunted by OMPFM's competitors.

In the PEST analysis the issue of concern to Old Mutual and it's subsidiaries is the governments focus on economic empowerment of previously disadvantaged individuals and companies, as well as the HIV / Aids problem. OMPFM needs to address the shortcomings in its IT systems, if it wants to provide a superior service to its customers. There is a very competitive environment in which OMPFM operates, as all the industry participants are fighting for position, and are in the process of developing a client list.

The key factors for success in the industry was identified as being, 1) the quality of service delivery, 2) staff skills and experience, 3) brand equity, 4) organisational capability and 5) a strong financial position. A closer look at the value chain of OMPFM revealed that there is still a lot that could be done to strengthen the team's position within the market. From the competitor analysis the major competitors were identified as being, Drake & Scull and WSP Facilities Management. However, the other competitors need to be closely monitored as they are all in the process of developing their operations.

The FM industry was found to be very early in its growth phase and was an attractive industry for OMPFM to be in. OMPFM was seen to have high business strength and is a strong competitor. It is therefore felt that OMPFM should follow a strategy of differentiation in order to grow its business.

CHAPTER FIVE

RECOMMENDATIONS AND CONCLUSION

5.1 INTRODUCTION

In this chapter recommendations will be made to OMPFM, following which there will be a conclusion pertaining to the entire research project. In chapter four a detailed analysis of OMPFM and the environment in which it operates was undertaken. It is from this analysis that we will now propose some actions to be taken by OMPFM. Some of these recommendations are purely to improve the company's internal operations, and therefore make it more efficient, while others will hopefully assist OMPFM in differentiating itself from its competitors in the market. By addressing some of these issues OMPFM should be in a position to aggressively grow the business and improve on its profitability.

5.2 RECOMMENDATIONS

The following recommendations should add value to OMPFM's operations, however they should be prioritized and cost allocated to the actions that are required, as not all the items can be attended to at the same time. Some of the items listed below can be implemented immediately, while for the implementation of others, OMPFM would require the approval of OMP or might even require the approval of Old Mutual. The recommendations are:

1) Black Economic Empowerment

This is an area that is receiving a huge amount of attention from the government, labour organisations and the population at large. All companies need to comply with the Employment Equity Act. The management of organisations needs to be restructured in order to comply with the submissions that they have made to the Department of Labour. Companies are also being monitored in terms of their procurement policies and to how much business is being conducted with previously disadvantaged companies and

individuals. This is all adding to the pressure of doing business in South Africa. As Old Mutual is a “Proudly South African” company, and wants to continue to grow its business locally, it needs to ensure that it complies with all of the above. In some instances they exceed the government’s requirements, and this could be a means of creating a competitive advantage in the market.

OMP being a subsidiary of Old Mutual needs to adhere to the Group’s policies regarding empowerment. As OMP is divided into ten different business units, it has the option of addressing empowerment at company level or within the various divisions. The recommendation is that OMP address black economic empowerment within the various divisions. It has the disadvantages that the company may end up with multiple structures and business partners, however the structures that are created at divisional level will enhance the company credentials and be focused in a particular market.

OMPFCM should be restructured to include the empowerment of previously disadvantaged individuals, as the growth of this business unit is subject to this. Many divisions within OMP, such as IT, Finance, Retail Management, and Property Management, Corporate Real Estate Services, Asset Management and New Ventures do not need strong empowerment credentials in order for them to grow their business, however the Facilities Management Division does.

OMPFCM could form joint ventures with other black owned companies or even create a new entity from which it could operate in the market, while a core team remains with OMP to manage the Old Mutual property portfolio. Any initiative would require the approval of the OMP board. This is one of the major weaknesses of OMPFCM, but if addressed properly could create many opportunities for OMPFCM, as well as Old Mutual.

OMPFCM manages the entire expense budget on the Old Mutual portfolio that is also managed by OMP. OMPFCM could provide further added value, as it involves more previously disadvantaged companies in the maintenance of the buildings and equipment, as well as the provision of services within these buildings, in the Old Mutual portfolio.

Differentiation in this case would be the ability to clearly demonstrate transparent empowerment.

2) Creating synergies within Old Mutual

The Old Mutual Group needs to consider restructuring its operations so as to obtain maximum benefits from the various business units. Currently Old Mutual, Nedcor and Mutual & Federal all have their own property management divisions and also outsource a lot of the facilities management functions. There appears to be a fair amount of duplication and thus waste of costs. Instead of outsourcing to other facilities management service providers, these contracts could be transferred to OMPFM and the revenue retained in-house. OMPFM should be appointed on performance based contracts so as to ensure that their performance does not fall below the services that are available in the market. This could be implemented within the next three years if approved. As OMPFM is now an international company this sort of initiative could be extended beyond the borders of South Africa.

3) Bulk Procurement

This is one of the initiatives where the saying, “working smarter and not harder” applies. Old Mutual has already established a procurement division that does a large portion of the procurement of material, stationary, services, etc for the Group. However, OMP is excluded from this arrangement. OMP through its FM division spends in the region of 60 Million Rand a year on purchasing material, equipment and various services for the properties within the Old Mutual portfolio. This could contribute a large amount to the bulk procurement initiatives of Old Mutual.

This bulk procurement would not only save costs for Old Mutual, but also generate additional revenue. OMPFM could offer this service to its clients, and in return it would receive a percentage of the savings achieved for the client. Thus creating a win, win situation for OMPFM and its clients. This bulk procurement could create a competitive advantage in the market, which would be difficult to match, because of the total purchasing power of Old Mutual and all the clients that join in the initiative.

4) Restructuring of OMPFM's Service Offering.

OMPFM currently offers a comprehensive facilities management service to the market. The service that it delivers is very good. However, this is not what all customers want. OMPFM needs to develop a range of services that can be offered to the market. For example, with building inspections, it could supply various different levels of reports. The base report would just be a photographic report highlighting the defects or problems identified, whereas the top of the range report would be a detailed document on all defects identified, together with a twenty-year budget to maintain and replace equipment.

OMPFM needs to sell a service that the client wants, and not what it thinks the client wants. It also needs to be flexible with its service offerings, and adjust its pricing accordingly. OMPFM needs to undertake a survey in order to determine what it or its prospective clients want. OMPFM's staff need to ensure that they develop very good relationships with their clients, as this sort of information is very often divulged in informal discussions and not in formal meetings.

OMPFM could do an intensive fully blown investigation before assuming any risks / responsibilities, thereafter offering a slightly better service than the rest for lesser fees than are currently being charged and therefore bring OMPFM in line with market rates and competitors.

5) Marketing

As stated in the previous chapter, Old Mutual has a very strong brand in Southern Africa, which should be used to the fullest by OMPFM. The brand does provide clients with a sense of security when dealing with OMPFM. However, the brand does have its disadvantages, in the eyes of OMPFM, as many clients do not see Old Mutual as being a facilities management company. Therefore OMPFM needs to aggressively market itself. Now that OMPFM has entered the market as an active FM service provider, they need to reintroduce itself into the market. OMPFM need to undertake an aggressive advertising campaign, in professional journals, newspapers, etc.

Not only should they market their services externally, but they should be marketing it within the organisation. Once people within the organization understand what services are being offered, they may end up selling OMPFM's services to their own clients, thus increasing the size of the sales team. OMP must ensure that its website and other marketing material is updated on a regular basis. All marketing material should also be available electronically, so that these could be distributed with ease, to clients and prospective clients.

6) Staff Retention

OMPFM has arguably the most experienced and qualified team within the South African FM industry. The management team has been very careful when selecting of staff members, and is now reaping the rewards of this policy. If OMPFM wants to continue to provide a superior quality service in the market, they need to ensure that they maintain and develop the staff. All the staff members need to be evaluated in terms of their strength and weaknesses and then training should be provided in areas where they require development.

OMPFM must also ensure that market related or slightly higher than market salaries are paid to the staff so as to prevent staff members from being poached by their competitors. OMPFM does participate in OMP's staff bonus scheme. However, this scheme will need to be revised at some stage, as it operates on the basis that OMP must meet its targets, and then the individual divisions must meet their own targets, before any payment is made to staff. This could mean that the division could perform exceptionally well, and if the company does not meet its targets because of other business units, then there would be no bonus payout. This could result in ultimately loss and / or de-motivating of staff.

7) Evaluation of IT Systems

OMPFM needs to evaluate its current IT systems and then determine what systems it requires, and what is necessary in order to meet its clients' needs. It should not implement the best systems on the market, but rather systems that meet its current requirements, and also has the flexibility to develop the systems further in the future. Once the initial assessment has been carried out, then this can be evaluated further.

8) **Customer Satisfaction**

OMPFCM needs to ensure that with all the restructuring and implementation of new systems, that they do not lose focus on their clients. Now even more than ever they need to build relationships with their clients in order to grow the business. Staff members need to communicate with clients and also prospective clients. This communication, should as far as possible be on a personal basis, and not via electronic means.

As OMPFCM is awarded new contracts, they need to undertake training with their own staff members as well as the client's staff members that will be responsible for managing the contracts, so as to ensure that all parties interpret the contract in the same way. Often contracts are negotiated by people that will not be involved in the day-to-day operation. It is therefore essential that training takes place, and that the staff members from OMPFCM that are involved in the contract negotiation, are also involved in the implementation of the contract.

9) **Creating Synergy within OMPFCM**

Prior to the beginning of May 2003, OMPFCM consisted of eleven staff members. This small staff complement ensured ease of communication and implementation of systems. The main function of the division was contract management. This has changed, and the same management team now has about sixty extra staff to manage. This has created some problems.

Some of the existing staff members have found it difficult to adapt to the new situation, while some of the new staff members have found it difficult to adapt to their new environment. Everybody within the team is eager to make their mark and implement new systems that will make the team operate more efficiently. As a result, staff are making changes to current systems, implementing them, and then training other staff in the new ways. Changes are being implemented without the senior management of the team, consulting each other and reaching consensus on the way things should be done. This could end up causing frustration and conflict within the team. The team needs to meet urgently, to discuss how they are going to operate in the future. They also need to agree

on their targets, as well as the short and medium term objectives of the team. The team has worked well together in the past, and there is no reason why they should not continue to do so in the future.

Since the restructuring of OMPFM in May 2003 new staff has been appointed, new equipment purchased, and staff has traveled around the country to ensure that the new team is functional. However, the staff members need to become more cost conscious and manage cost more effectively, now that the team has been established. OPMFM cannot expect to manage clients' budgets efficiently, if they cannot manage their own costs.

5.3 CONCLUSION

This report has attempted to identify ways in which the Facilities Management Division of Old Mutual Properties could differentiate itself in the market. A qualitative research methodology has been used for this project, and it was based on a case study of OMPFM and the Facilities Management industry in South Africa. In order to meet the objectives of this report all the relevant theory had to be identified and discussed, which could be used to analyse OMPFM and the external environment in which it operates. The various theoretical models that were used included: 1) the SWOT analysis, 2) PEST analysis, 3) Porter's Five Forces Model, 4) Key Success Factors, 5) Core Competencies of an organisation, 6) the Value Chain analysis, and finally the 7) Competitive Strategies that are available to an organisation.

A detailed case study of OMPFM, its competitors, and the facilities management industry was provided in chapter three. The theory provided in chapter two was then used to analyse the case study of OMPFM. In light of OMPFM's mission statement: "We strive to be the number one choice for facilities management consulting in Africa, dedicated to the continuing overall improvement of the assets & satisfaction of our clients" we believe that they should look at different ways in which they could differentiate themselves in the market.

During the analysis of the case study it was found that OMPFM have a number of good strengths, but that the quality of the staff appeared to be the biggest strength and that this strength must be nurtured and developed. A major weakness, which if addressed properly could create many opportunities for OMPFM and Old Mutual, is the issue of Black Economic Empowerment. The major competitors to OMPFM in the current environment appear to be Drake & Scull and WSP Facilities Management. The Facilities management industry was found to be in the early stages of its growth and that it was an attractive market for OMPFM to be in.

Finally, we have included some recommendations, which we believe will firstly consolidate OMPFM's position within the market, and then differentiate it from its rivals. The follow items should be addressed by OMPFM as a matter of urgency: 1) black economic empowerment, 2) creating synergies within Old Mutual, 3) Bulk Procurement, 4) restructuring of OMPFM's service offering, 5) marketing, 6) staff retention, 7) evaluation of IT systems, 8) customer satisfaction and 9) creating synergy within OMPFM. These items have been discussed in more detail above.

We believe that the recommendations highlighted above and resulting synergies would assist OMPFM in achieving their objectives and ultimate mission.

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