

Corporate Strategy

A case study on DHL Keells (Pvt) Ltd

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LIST OF ABBREVIATIONS

ATL : Above the line

B2C : Business to

Consumer BOI : Board

of Investment CIA : Clear In

Air

CpK : Cost per

Kilo D2D : Door

to Door

DGF : DHL Global Forwarding

DHLE : DHL Express

DOX : Documents

EC : Express Center

FTE : Full Time

Employee FS : Felid

Sales

FY : Full Year

IEO : Import Express

Online IMP : Import

JKH : John Keells

Holdings JV : Joint Venture

KPI : Key Performance

Indicators LY : Last Year

MSDS : Material Safety Data

Sheet PU : Pick Up

RPA : Receiver Paid Account

SA : South Asia

SLCA : Sri Lanka Courier Association

SME : Small and Medium

Enterprises SPA : Strategic

Pricing Alignment

TAPA : Transported Asset Protection

Association TS : Tele Sales

YoY : Year on

Year YTD : Year

to Date

1. EXECUTIVE SUMMARY

With a 30 year civil war ending, Sri Lanka is going through an industrial revolution. The economy is booming and a lot of new industries are being set up. There is a massive flow of foreign investment to the country and infrastructure developments are taking place with Sri Lanka opening its doors to world.

The logistics industry is getting transformed in to a major industry in the country in order to meet with the growing demands of the other industries in the country. We have seen a rapid growth in express logistics (courier) industry which mainly serves apparel, tea and financial sectors. Some new sectors such as state, construction, pharmaceutical, hospitality and tourism have also begun to use express logistics services as a part of their business process.

This report will focus on DHL Keells (Pvt) Ltd, a part of DHL Express who's on a JV with JKH. It will critically analyze the strategies the organization uses and plans to use in the future. Its performance will also be analyzed along with the demand for market adaptation and resource leveraging. Strategic paradoxes will also be examined and contrast related to strategy development will be evaluated in dept. The alignment of the global strategy to the local strategy will also be analyzed.

As a current employee of DHL Keells (Pvt) Ltd, who has held positions of Sales Analyst, Sales Programs and Development Manager and Product Development Manager in the Commercial Team (Sales and Marketing), I have also included some information which were available to me.

2. COMPANY OVERVIEW

Deutsche Post DHL is the leading international logistics company in the world with a global presence of over 220 countries with more than 285,000 employees worldwide. DHL has 4 main business units, viz. Express, Supply Chain, Mail and Global Forwarding. DHL Express is the market leader in the courier industry in the world.

DHL Keells (Pvt) Ltd was formed in 1992 as a joint venture between JKH Sri Lanka and DPDHL, with the country office being situated in JKH premises in the heart of Colombo with a massive warehouse space and a workforce of over 250 employees. DHL Keells is also the market leader with more than 50% share in the courier industry in the local market.

DHL Express – Global Strategy



(www.dhl.com, www.dhl.com.lk)

(Appendix 3)

3. INDUSTRY ANALYSIS – OVERVIEW OF THE EXPRESS COURIER INDUSTRY

The express logistics industry also known as the courier industry in Sri Lanka has an annual turnover of approximately UDS\$ 35.5 million (2013 exchange conversion rates; USD\$ 1 = LKR 135). DHLE has been present in the country since 1980 even prior to it entering into a JV with JKH. The country has gone through turmoil with 30 year long civil war. But with the war ending in 2008, the industry sector has been experienced an exponential growth. The logistics sector has supported most of these industries on their growth. As per the market share study conducted by SLCA, the industry has experienced consistent revenue growth of 2% and 10% in 2011 and 2012. In 2013 the growth has been flat as the base effect coming into play with 2012 recording a very high growth. YTD June 2013 market growth compared to LY has been recorded as 17%.

Especially in the apparel industry, which is one of the major export sectors in the country, the courier industry has worked hand in hand to help in the industry growth. With Sri Lanka losing the GSP+ concession in 2010, the courier industry also took a hit with a decrease in volumes being exported to the Europe. The impact came in stages as it was faced out between the periods from 2010 until the end of 2012. But with competitive rates being offered to the apparel customer, we were able to quickly rectify the downfall. There's also a high demand for Sri Lankan made garments because of them being high in quality.

The infrastructure development such as ports (Hambantota), highways and airports (Mattala) have also aided in the courier industry with the country being covered as a network of web. It has also increased the entry and exist points to Sri Lanka. Through the 2020 Vision of the Sri Lankan government and the 5 hub concept aims to make Sri Lanka into a logistic hub. This paints a bright future for DHL as the largest logistics solution provider in the world.

(www.ft.lk)

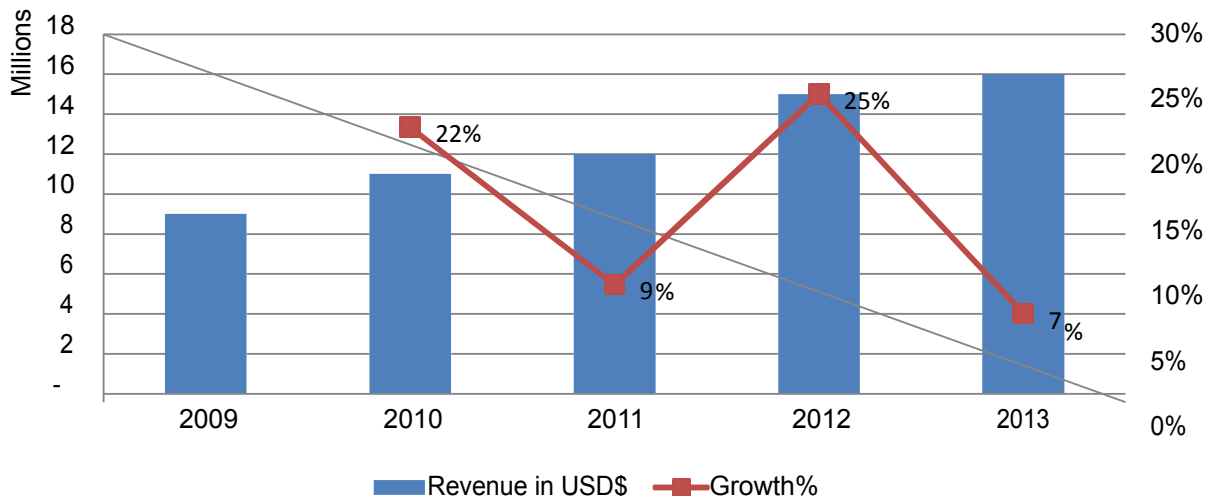
4. COMPANY PERFORMANCE

Number of employees	250+
Monthly Turnover (July 2014)	USD\$ 1.7 million
Annual Turnover (FY 2013)	UDD\$ 20 million
# of customer contact points (ECs)	21

DHL Keells is the only courier service provider in Sri Lanka to offer the following advantages to its customers. These act as key differentiators of DHL Keells from the competition.

- Bonded warehouse facility with in house custom clearance agents within the airport premises.
- BOI pre clearance, where clearance takes place on a priority level for all BOI shipments.
- Clear in Air (CIA), where you clear consignments prior to it arriving in the country when it's in transit or midair.
- 24X7 Customer Service.

As the leading courier service provider in Sri Lanka DHL Keells has an approximate share of about 55% from the total market. The revenue growth rate has always been above the market growth rates which are a healthy indicator of capturing market share and profit maximization. The growth of the number of consignments (shipments) carried has also grown +10% YoY basis.



DHL Keells recently invested on a scanner (RA3) worth LKR2.4million where you can detect traces of explosive materials and narcotics. As a result, now they are able to directly load cargo to aircrafts heading to Europe after them being passed through the scanner. DHL Keells is the only logistics provider in Sri Lanka to possess such a scanner in return which has helped them to pass the benefit to the customer by providing an extended lead time when picking up their shipments.

5. CRITICAL EVALUATION OF DHL KEELLS'S STRATEGIES

According to (De Wit & Mayer, 2014), cooperation can be defined as “The act of working together with others, where two or more organizations’ goals are mutually beneficial”. Companies that follow network level strategy, the demand for effective inter-organizational cooperation is very important. For example: Joint Ventures or partnerships.

However, under this level of strategic approach the companies should embedded themselves in a web of durable and effective collaborative relationships, emphasizing the value of cooperative inter-organizational interactions for realizing their long term goals.

For example the JV between JKH and DHLE has been beneficial to both companies. In 1992, DHLE wanted to tie up with a local party in order to capitalize their market presence in the country. With JKH being the one of the biggest business entities in the country, the alliance served them well in accessing their resources and penetrating cultural barriers. Currently DHLE and JKH are on a 50/50 profit sharing agreement where DHLE is uses JKH resources such as warehouse premises and delivery vehicles. They were also able to tap into the highly skilled human resources which were readily available. In return JKH was able to leverage on DHLE global presence in forming some of the complex logistics solutions that they required. Also DHLE was able to act as a platform to gain more business and promote JK freight forwarding arm NDO Lanka. Main characteristics of the JV between DHLE and JKH are as follows.

- Cooperation
- Interdependence
- Networked environmental structure
- Close and structural inter organization relations
- Interaction outcomes are mainly positive or win/win
- Interaction based on trust and reciprocity
- Use of collaboration
- Relationship based collaborative arrangements

As a JV DHL Keells was able to capitalize on JKH strengths and capture market share and become the market leader in Sri Lanka. The cooperation between the two companies and the interdependence was the key to its success.

5.1. THE OUTSIDE-IN AND INSIDE-OUT PERSPECTIVES

The outside-in approach or positioning approach is where companies spend enough time considering about business decisions from a perspective other than their own. Instead, companies continue to make strategic decisions using a methodology that is more focused on the external environment.

According to (Wit and Mayer, 2014), “Managers with an Out-Side in perspective demonstrates that, firms should not be self-centered, but should continuously take their environment as the foundation when determining their strategy”. Through this approach companies are more centered towards exploring more opportunities and threats. For instance, companies take cues from the customer, competitors and use these signals to determine their own action plan.

In opposition to the concept “outside-in perspective”, the inside-out perspective demonstrates the idea in which managers believe that business strategies should not be built based around external opportunities or threats; hence it should be built around company’s internal strengths (De Wit & Mayer, 2014). Companies that come within the reach of inside-out concept always need to answer the question, “In which resource base it wants to have the strategy formation process?”. Furthermore, market positioning must be formed within the context of the broader resource-based strategy and should not oppose the main thrust of the firm. In order to be thriving within the specific industry, resources should be leading and markets should be following. DHL Keells often uses this strategy as it is heavily depended on the people that they recruit to execute the strategy.

When considering the two perspectives in terms of gaining competitive advantage, one perspective will certainly not outweigh the other because each approach has its advantages and disadvantages. The selection between the two approaches or in other words, “should companies create a sustainable competitive advantage by first choosing a higher position in the environment and then adopt the internal resources towards this position or should the company develop unique internal resources and then attempt to battle against the external environment” is primarily depend on the nature of the business.

DHL Keells uses the outside-in approach and focuses on market over resources. It consists of an opportunity driven orientation and is built on market demand. The strategic focus is to gain advantageous position and the tactical move is acquiring necessary resources. The competitive weapons are bargaining power and mobility barriers (economies of scale). Through experience and by becoming the pioneer in the courier industry and also by the JV with JKH, DHL Keells have further strengthened their position. Porter argues that managers must select a competitive domain with attractive characteristics and then they must position the firm vis-à-vis the positive competitive forces. (Appendix 1)

When describing the strategic approach in DHL, which has an insanely customer centric culture where customer's voice is always given the first preference. There is a lot of transparency in doing so, where customers are even encouraged to write their complaints via the platform "Straight to the top" using the DHL website. This approach is used when companies need to be the market leaders. DHL Keells being the market leader in Sri Lanka have more bargaining power towards buyers and suppliers. (Appendix 1)

5.2. EXISTING STRATEGIC TENSIONS

DHL Keells's pricing strategy is one factor where the appropriateness of it has been questioned over the past few years. It is one of the main strategic tensions that the company faces at present. Due to the international nature of operations of the organization, there had been a lot of investments done on aircrafts, hubs, gateways, tools and processes. The pricing CpK is derived considering the network line haul cost structures that are available. Even though the prices are mostly market aligned there is a general perspective among the public as DHL being very expensive than the rest of its competitors.

6. STRATEGIC PARADOXES OF THE MARKETS AND RESOURCES

According to De Wit and Meyer (2010), the key to success is the alignment of an organization and the market. Its strengths and weaknesses should align well with the opportunities and threats and also should be reflect on a sound strategy. However, this is deemed difficult when different sides tend to pull in different directions. These prevailing strategic tensions are being analyzed as follows. (Appendix 2)

6.1. THE DEMAND FOR MARKET ADAPTATION

As discussed before, the general public believes that DHL as the market leader is expensive in their product offering. Therefore, it's crucial for the company to adapt into market conditions. Market intelligence studies are conducted once in every 3 years and prices are aligned to the market rates through a SPA. This helps to ease out most tensions and retain market share from price undercutting competition. At the same time it's crucial not to price the quality service offering that is provided to the customers. Therefore the price positioning comes in to play where the organization leverages on its strengths, expertise, other key differentiators and the value added services offered to the customer. A company has two options of competitive advantages that they can adopt. One is differentiation and the other is cost leadership. (De-Wit & Meyer, 2010)

When analyzing how DHL Keells it is visible that they focus on the differentiation strategy. They have specialized solutions such as special contracts, lane based pricing and spot rates, etc. to differentiate their service offerings when it comes to price over the competition. DHL is also considerate on the social trends which influence customer buying decisions. They have product offerings such as GoGreen, which caters to conglomerates who would like to offset their carbon emissions and accumulate carbon credits.

6.2. THE DEMAND FOR RESOURCE LEVERAGING

DHL's local resources are often fully utilized effectively and efficiently. The unique differentiator from the competition is that their workforce. The staff is given state of the art training and often sent overseas to gain knowledge about their global operation. The culture is built around the workforce with the following key attributes.

- Speed
- Can Do attitude
- Right First Time
- Passion

These are inactivated by using the underlying principles of "Respect and Results".

7. CONCLUSION

The current market is changing rapidly and organizations have to be quick to adapt to the fast paced change and develop strategies to grow and sustain businesses. Failure to do so will result in the competition eating in to the market share that you enjoy. In the current state, the competition has become fierce, and the key to success in organizations is to build a competitive edge over their rivals.

This report focuses on DHL Keells and analyses its performance and growth over the past few years. It also analyses the strategies used by the company and the current tensions to the strategy. The importance of market adaptation and resource leveraging was also discussed.

The economic condition in the country has been promising for all businesses including the courier industry. Therefore DHL Keells has to be vigilant to maintain their competitive advantages over their rivals. The use of differentiation strategy to gain competitive advantage will have to take prominence in staying ahead of the rest.

The report discusses DHL Keells's current strategies in detail. The Porter's Five Force analysis and the SWOT Analysis will give a complete understanding about the market conditions.

8. REFFERECES

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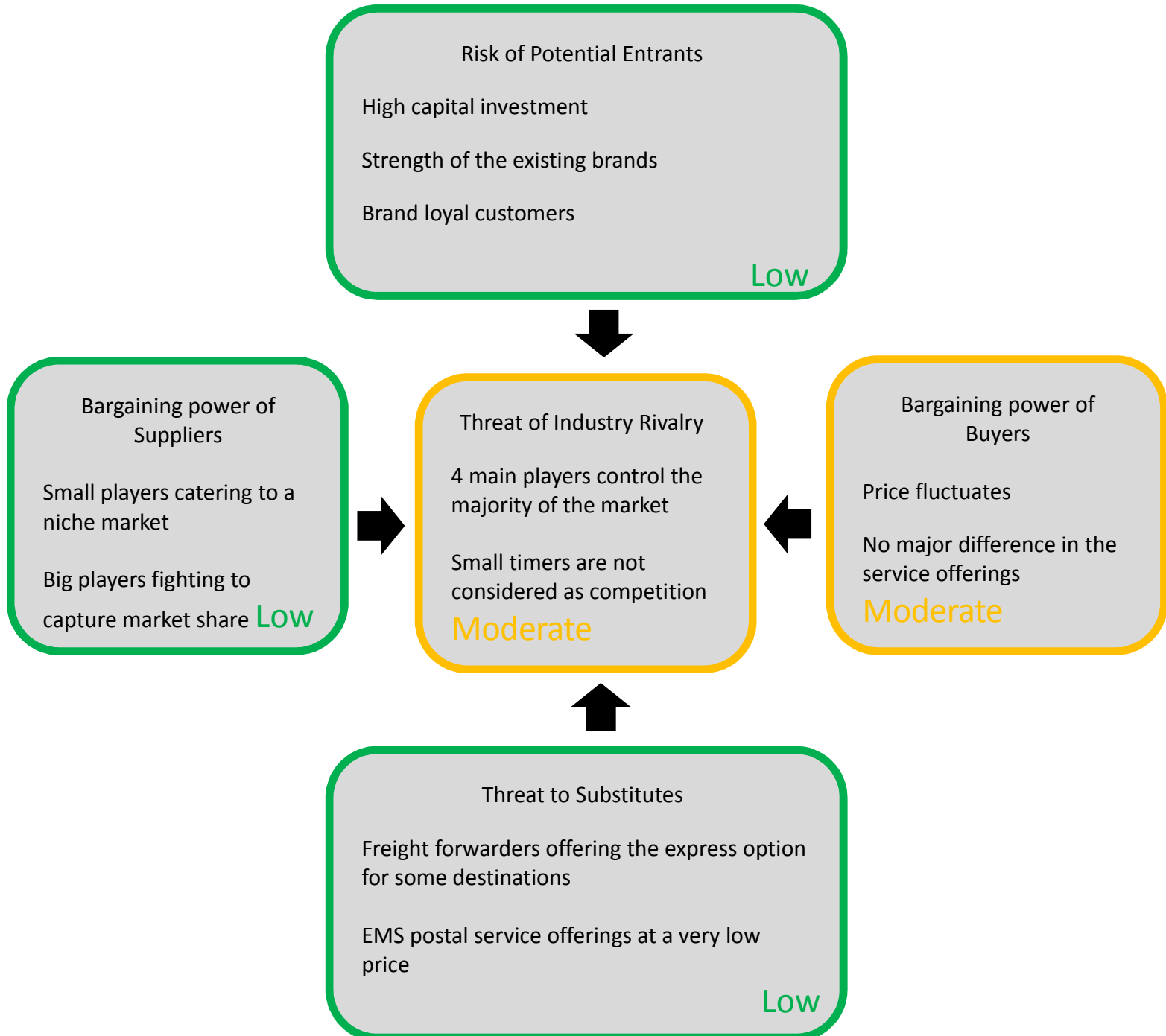
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9. APPENDIX

9.1. Porter's Five Forces Analysis



9.2. SWOT Analysis

Strengths

- Strong brand image which is known for speed, reliability and trust
- Strongest international network in the market which offers customers a speedy service to anywhere around the world
- Largest vehicle fleet which provides shipment security
- Bonded warehouse and gateway facility with airside and road access which provides customers a faster clearance through CIA
- Largest retail network providing greater accessibility for our customers
- Professionally trained staff having undergone world class training and development
- TAPA certification and CCTV coverage
- Joint Venture with JKH adding strength to local presence
- Pioneer in the industry with clear market leadership
- World class standardized processes which drives the business to achieve productivity and cost efficiencies
- 24 x 7 call center provides greater accessibility to customers
- Ability to provide total solutions for large scale customers which includes, dedicated customer service, customized reports, mail room operations/in plant solutions, shipment merges, etc.
- Pricing flexibility to go after any competitor
- E-com solutions that create automation and visibility
- Excellent collections that fund day to day operations and limited use of external borrowings
- Customer centric processes being offered across the organization
- Excellent relationships with regulatory bodies that has the capacity to influence changes to DHL's advantage

Weaknesses

- Strict network procedures that create barriers to further sales efforts. i.e.; Passports to certain destinations, heavy weight approvals, high value shipment approvals, etc.
- Strict credit policies create a barrier to go after competitor held customers
- Inconsistency in responding effectively to critical incidents especially when things go wrong after setting high expectations
- Lack of direct domestic presence hinders faster PU's and deliveries and also the opportunity to scope international business opportunities in those markets
- Lack of manpower to handle IMP pickup requests, thus losing some inbound opportunities
- Insufficient exposure in local media, ATL advertising
- Standard services to key cities in USA are not good enough compared to FedEx. FedEx offers pre 10.30 as a standard service whereas with DHL it is a premium service
- DHL perceived as being the most expensive in the market
- Lack of flexibility due to strict enforcement of KPIs across all functions
- E-com solutions are lagging behind competition
- Dependency on top 20 customers

- Limitations in offering personalized services for certain regulatory approvals. i.e.; Archeology approvals, MSDS, Mineral sands approval, etc.
- Loss of IMP shipments due to IEO inefficiencies

Opportunities

- Direct flight options to certain destinations which will help to improve transit times
- Retail footprint expansion in the N&E
- Retail expansions to be used to piggy back direct domestic services and improve corporate account setup in remote areas
- Growth in leisure sector to drive tourist express
- 5. B2C web solutions which are increasingly being used to market local products
- Hambantota is a key growth area for a future gateway facility
- Domestic air services for transporting consignments to and from remote locations
- Domestic airlines are a potential industrial vertical for business growth
- IMP hunter concept to be expanded with the growing IMP potential in the market
- TS growth in SME sector (50%) is a good reason to increase TS FTE's
- FS presence to be increased especially in high growth areas. i.e.: BOI zones
- Government sector is a potential industry vertical for business growth
- Sri Lanka Post
- RPA service to regain the lost cash IMP market segment
- Go Green carbon neutral services
- Break bulk solutions
- Develop total logistic solutions by partnering with DGF

Threats

- Additional surcharges which competitors do not have hinders growth
- Competitors leveraging on domestic services to grow International markets
- Uncertainty in the EU and US may have a business impact to LK
- Customers demanding lower rates amidst rising operations cost thus delivering lower yields
- Freight forwarders offering D2D services at competitive rates
- Niche players offering below market rates and offers customized solutions to key lanes
- E-solutions are negatively impacting DOX business especially in the banking shipping industries
- UPS/TNT merger increases their market presence and capability
- FedEx strengthening themselves in the SA market
- Flexible approach by competitors in handling customs and regulatory bodies
- Aramex – Shop and ship limits cash IMP opportunities available for DHL

9.3. DHL Express Global Strategy – Focus 2015

OPERATING MODE: FOCUS 2010-2015

	2010	2011	2012	2013	2014	2015
	Business Stabilization	Invest for Growth	Grow Market Share	Margin Acceleration	Convergence	Renewal
	INVEST TO BECOME PROVIDER OF CHOICE			→		
	INVEST TO BECOME EMPLOYER OF CHOICE				→	
	INVEST TO BECOME INVESTMENT OF CHOICE					→
	Tactical AP&P	Strategic AP&P @ 2.5%	Global TDI @ 30%	CI Studies 80% DHL	Best in Class EOS score	US margin 5%
	Launch CIS	DE-US,FR-US, (BE & IT)	Strategic AP&P @ 3%	NPA	Service every address	No country in loss
	Market Pricing	AeroLogic+2...Total 8	North Asia HUB	QCC for top 20 Cust.	Converged IT systems	Growth above market
	QCC Rollout	Repair and Return	Add. intra Asia flights	CS (love sweet love)	All on latest release	Volume % = Value %
	Talent Identification	Clinical trials	CIS fully roll out	CoC Clarified	All training is CIS	Germany won
	Payroll catch up	Piece by piece		eCom tools		Stock price 25 Euros+
	Earlybird HK-EU	IN-EU via Bangalore		US profitable		
	Direct CN-JP	Polar+2...Total 8		Germany winning		
	Kalita Asia-US	Pre 12				
	Blueprinting	2C solution				
REV.	10.9 Billion	11.3 Billion	11.7 Billion	12.3 Billion	12.9 Billion	13.7 Billion
EBIT	500 Million	900 Million	1 Billion	1.1 Billion	1.3 Billion	1.5 Billion
%	4.6%	7.9%	8.5%	8.9%	10%	10.9%

