F E A T U R E  I N T E R V I E W

Jurie Hanekom
CEO, The Swartland Group

Driving Force: The DNA of Strategy
Stealth Competition in the UK Grocery Sector

Interview: Paul-Marie Chavanne
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About

**Decision Processes International - Africa**

Headed by Greg Carolin, Managing Partner

The DPI Africa consultancy group, a member of the Decision Processes International global organisation, was founded in South Africa in 1994 by Rex Glanville, current Chairman of the Africa operation. Headquartered in South Africa and drawing support from the resources of the global DPI network, DPI Africa is now headed by Managing Partner Greg Carolin and offers the full range of our critical thinking processes—Strategic Thinking℠, Strategic Innovation℠ (Product and Business Model) and Situation Management℠. The firm also serves the Nigerian market through its operation in River State, Nigeria.

Greg Carolin’s career began in banking, with several strategy development positions at First National Bank of Southern Africa (then Barclays Bank South Africa) and FirstRand. Introduced to DPI while involved in these ventures, Greg learned firsthand the power of Strategic Thinking concepts, seeing such results as the exceptional growth of the FNB HomeLoan Division, from R375 million to R550 million, as the result of a refocused strategy.

Greg’s knowledge and experience in strategy creation and deployment have enabled him to lead the Strategic Thinking Process in reshaping the strategies of over 150 major players and emerging companies. The story of Swartland, one such company, is featured in this issue. Recently, he and the DPI facilitation team assisted MMI Holdings management to create a highly successful strategy as the company was formed through the merger of Momentum Group and Metropolitan Holdings.

In 2012 Greg co-authored the book, *Leadership Pure and Simple*, with David Wilkins of DPI Asia, which encapsulates DPI’s unique approach to harnessing and empowering people within organisations to create and deliver world-class strategies for growth.

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Decision Processes International South Africa was awarded Institutional Accreditation by the Services Sector Education and Training Authority and has now officially been confirmed as a Provider of education and training in terms of the SAQA Act 1995 for the delivery of our Strategic Thinking Process Decision No: 1133
Dear Executive:

Welcome to The Strategist, a publication which offers you articles by some of today’s leading thinkers on the subject of corporate strategy.

DPI’s core technology is our Strategic Thinking Process which enables corporate management to create and implement strategy. A common sense approach to strategy, Strategic Thinking is making traditional strategic planning obsolete. This process enables a company’s management team to reason out a strategy as a group, assuring thorough understanding, consensus, buy-in, and effective implementation. In the “war rooms” of more than 3,000 companies throughout the world, global companies such as 3M, FedEx Custom Critical, Caterpillar, Prudential, Lubrizol and Motorola as well as regional companies, such as Rand Merchant Bank, Ascendas, SATS Group, Cancer Treatment Centers of America, and hundreds of small to medium sized emerging companies — this methodology has been refined and validated by DPI for more than 30 years.

We hope you enjoy this issue of The Strategist.

Good reading,

The Strategist

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Jurie Hanekom

CEO | SWARTLAND GROUP

Just below the lion in The Swartland Group’s logo is a phrase that guides decision-making of the 60-year-old company every day—Think long term.

“I am third generation, there is no short term thinking here,” says CEO Jurie Hanekom. “If I must make a decision or action, I think about how it will impact the next generation, and what others did before us. We have to look at the legacy. So ‘Think long term’ means our product must work long term, our customers stay long term and our people must stay long term with us. We must do the right thing for the long term gain.”

More than 60 years ago, Jurie’s grandfather Oupa Hanekom opened an electrical contracting and building supply business in the small agricultural town of Moorreesburg, a few kilometres north of Cape Town, South Africa. Over the ensuing 50 or so years, the business evolved into a wooden products manufacturer with various family members involved in management. When Jurie Hanekom became CEO, the company had sharpened its specialisation, focusing on making wooden windows and doors while still maintaining a small building supply business which was eventually closed. Gradually, sales in the doors and windows business had grown and by 2002 had reached roughly 350 million Rand. By then, the company was marketing its products in several southern African countries, and exporting to U.K. and the U.S.

It was about then that Hanekom ran into an obstacle eventually encountered by many entrepreneurs, particularly those involved in successful privately-owned businesses. Swartland had become large enough that it was no longer possible for one man to manage every aspect of the business every day. And his management group, though operationally skilled, tended to focus decision-making on short term issues, simply because they did not have an understanding of the long term strategy.

“We were doing quite well,” Hanekom recalls. “We were the small fish in the pond but were growing quite quickly. And as we were growing we realised that the strategy was all in the head of one person—mine. We realised that this was placing restrictions on the company and its growth. It had become more
difficult to change direction or bring in new ideas. People frequently had to be told what to do. There were no easy tools to use to focus their actions or plans to guide them, to ensure that they would make good decisions following my strategy.”

Hanekom realised that they needed to create a clear, written strategy so that managers could think independently and make daily decisions based on their grasp of that strategy. So Swartland did what many companies do in this situation. They brought in various consultants to help them get their business strategy clarified, articulated, and committed to paper. The results were disappointing at best.

Says Hanekom, “We had consultants come in and try to help us. They asked questions and wrote strategies, and when they were finished, they handed us books, and said, ‘Here’s your strategy.’ Those books went straight to the book rack, gathering dust. Nothing happened because they were not our strategies. We tried that approach a couple of times and none of that was successful. So we decided to try the DPI Strategic Thinking Process facilitated by DPI Senior Partner Greg Carolin. These other tries at strategy development showed us that the strategy doesn’t work if you don’t use information from within to build it. You need to get buy-in from within the company. The DPI process works in such a way that it pulls the information out of the heads of your people, who know the business best.”

“The initial Strategic Thinking sessions were a bit of a test for both the management team, who had never been asked to participate in such an undertaking, and also for CEO Hanekom."

“‘When the DPI people started asking about what our Driving Force was, I said, ‘It’s me, and my boot!’ but we learned to think about this concept strategically and came to the conclusion that our Driving Force is our Product—wooden doors, windows and trimmings.”

—Jurie Hanekom

“It was the journey of my life,” he says. “I am CEO, the ‘Head Lion’ as we call it in Africa. I am a control freak, rehabilitated to a degree now. I was like a hen over her chickens. I had to learn to sit down and let the others contribute their input.”

As the teams went through the process, evaluating all the aspects of the company—products, markets, threats and opportunities—Hanekom began to see the process giving them the structure and permission to voice opinions and debate issues. He gradually gained confidence, not only in the strategy process itself, but also in his managers, the people to whom he would entrust his company’s future.

“This, at first, was not easy for me. But I learned to stand back, trust the process and let the people do their work,” says Hanekom. “The DPI way is such a well-defined process. The compilation of the outcomes of the various steps became a working document for the company. This brought together all the departments, levels of management and shareholders and in the end gave them a common goal that they themselves had created.

“When the DPI people started asking about what our Driving Force was, I said, ‘It’s me, and my boot!’ but we learned to think about this concept strategically and came to the conclusion that our Driving Force is our Product—wooden doors, windows and trimmings.”

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“The first Area of Excellence we had to concentrate on then was Product Development, because the best product wins. And we must strive for excellence in Brand Equity. We have created a concept called ARK which stands for Availability and Reliability and Knowledge of our products and services, which has given us a focus on being the supplier of first choice. We now operate on the principles of world-class systems across the business, using the Theory of Constraints,
World-Class Manufacturing, Lean Manufacturing and Speed to Market—and all of these come into it.”

So the company turned its attention to designing and building the best, most innovative products in its market. Swartland products have become known for exceptional quality, such as wooden doors and windows designed for their African markets, made from sustainable hardwood, and kiln dried to consistent 8% moisture for long term stability and durability. Continuous product development has also led to unique, new-to-the-market products, such as its R2F (Ready to Fit) product line, developed to save significant money in material costs for contactor customers and reduce time of installation.

Swartland has also created a unique strategic asset which would be difficult for its competitors to duplicate—its game-changing supply chain, comprising a specialised quick response production process and an extensive distribution network, which enables them to respond to orders in a fraction of the time of its competitors.

“Through ARK we have been able to change the game—the other manufacturers always take the order from the market and then deliver in 20 to 30 days. We changed the game to being in-stock, and delivering on the next route. The next routing can be 24 hour delivery. We have set up a complete warehousing network in our industry that none of our opposition has. This distribution gives us the ability to reach the customers with small quantities very quickly.”

“Right now, for example, it’s late in the month, almost the last week, and I saw that our order intake is accelerating. This type of acceleration at this time of the month is because the opposition is not delivering. Their customers have ordered at the beginning of the month, and they didn’t get their stuff. So they know they can come to us and we’ll deliver, and we get premium pricing for that.”

Swartland has also learned that innovations have a shelf-life, driving the need to continuously deliver new concepts throughout the value chain.

“Changing the rules of the game, as DPI refers to it, was a new concept for us,” Hanekom says. “It does however create the urgency to realise that to stay competitive you have to implement changes. The rules of the sandbox have to be changed to make the playing field more challenging for your competitors. And we realised that any change we make in our sandbox is to our benefit for a year at most. One of our competitors has a ‘fast-follower’ strategy: They are very good at copying us. A year at most is the advantage we get. So we must continue to innovate in product and service, and build loyalty to our brand.”

Applying these principles, Swartland has continued to grow and maintain competitive advantage in a very difficult economic environment, against considerable headwinds.

“During the buildup to the economic crisis in 2008, manufacturers invested in capacity to cope with demand,” Hanekom recalls. “After the bubble burst, the manufacturing sector in our industry sat with surplus capacity, which is still the case today. Competition is fierce. It is tough to ensure that you get enough volume to sustain your operations. So pricing is very competitive and merchants are spoiled for choice.

“Also, Swartland’s U.S. export business was severely affected by the building downturn. At one time we were exporting up to 100 containers per month to the U.S. Now we are down to 3 or 4. It is chalk and cheese from where it was, to where it is now.”

Determined to win in this environment, Swartland has done Strategic Thinking reviews several times in the past ten years, to check progress, continue to push the edges of the envelope, and fine-tune their strategic understanding.

“Each time we do the process, we get more familiar with it. The more you ‘exercise,’ the better the strategy that you develop out of it becomes. We have learned that the strategy is only as good as the feedback chain,” says Hanekom, “and you must always work on making your Critical Issues happen which is not always easy.

“The Critical Issues are something that we are now using much more effectively than in the beginning. We are evaluating people based on the progress on the Critical Issues, the things we’ve determined we have to accomplish to make our strategy work. This adds another dimension to

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ensure that our focus is in the right place. For this we have created a score card methodology to drive the success of the implementation.”

The Business Concept derived during the strategy sessions has also become embedded in the minds of key managers, providing a concise, common filter for decisions.

Says Hanekom, “In management meetings, when somebody is to report back on an area of responsibility, they must open with the Business Concept we agreed upon in the process. They must open with, ‘Our strategy is to profitably increase our leadership position in value-added wooden products for the building and DIY industry within Southern Africa and other selected international markets. We will achieve this by … and so on.’ They must say, ‘My responsibility is this and this, and our goals to achieve are this and this.’ We put it right in front of our brains by repeating and repeating it!

“I always tell them ‘what’s in/what’s out.’ We don’t want to talk about the out things, only the in things. And they know what the in and out things are. Does an opportunity get through our Strategic Filter? The idea came up at one point about making aluminum windows and doors, or PVC. Then we clearly said we are only working with wood. Nobody is going outside that line. So this filter helps us stay focused on our direction.

“Another benefit to doing the process regularly is the development of managers. The process has empowered them to make decisions they know are correct, if they use the strategy as a filter. This enables the company to act more consistently and ‘Think long term.’ We have been using this process for ten years and we now know how to motivate our people to speak up and get their input in and get the feeling of belonging and sharing in it, so you get the buy-in.

“If we kept on the way we were going, I could never have been relieved from running the business. The vision that we had as to what we wanted to do with this company was not understood back in 2002, so we had to change. Otherwise, I would never have been able to take a lesser role and have professional management in place.”

Today sales have roughly doubled since 2002 to just under 1 billion Rand, and management is looking at the future of its business, where it will go from here.
To achieve competitive supremacy, and deliver sustainable growth, a company needs to have a strategy that establishes a significant and sustainable point of differentiation — one that enables it to add unique value that competitors will have difficulty duplicating. Of course, most companies have a strategy of some sort. Yet few are able to create a clear definition of that single differentiating factor — if there is one — that has enabled the company to be successful in the past. Still fewer have looked down the road to create a scenario, or strategy, that will enable them to be successful in the environment they will face in the future.

We call that defining factor the Driving Force. It is the component of the business that is unique to that company and is the key determinant of the choices management makes with regard to future products, future customers, and future markets. Without an understanding of, and agreement upon, that Driving Force, management will have a difficult time creating a strategy for the future that will breed supremacy over its competitors.

What Makes Your Strategy Tick?

The best way to determine whether a CEO and the management team have a strategy is to observe them in meetings as they try to decide whether or not to pursue an opportunity. When we have sat in on such meetings, we have noticed that management would put each opportunity through a hierarchy of different filters. The ultimate filter, however, was always whether there was a fit between the products, customers, and future markets. Without an understanding of, and agreement upon, that Driving Force, management will have a difficult time creating a strategy for the future that will breed supremacy over its competitors.

What single element of your organisation sets you clearly apart from—and hopefully ahead of—your competition? Many CEOs will find that if they pose this question to their senior managers, they will get as many answers as there are managers. Lack of consensus on what we at DPI call your Driving Force is guaranteed to waste resources and weaken your competitive position.


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companies looked for a fit between similar products. Others were less concerned about the similarity of products than about a fit with the customer base. Still others were not interested in the similarity of products or of the customer base, but rather a fit with the technology involved, or a fit with its sales and marketing method, or its distribution system. Some quick examples:

What fit was Daimler looking for when it bought Chrysler? Obviously, the fit was one between similar products. Johnson & Johnson, on the other hand, looked for an entirely different kind of fit when it acquired Neutrogena creams from one company, and the clinical laboratories of Kodak, each bringing dramatically different products. J&J was looking for a fit between the class of customers served — doctors, nurses, patients, and mothers — the heart-beat of J&J’s strategy.

Ten Strategic Areas

The next question that came to mind was: “What are the areas of an organisation that cause management to decide how to allocate resources or choose opportunities?” We discovered that each of the more than five hundred-plus companies we had worked with consisted of ten basic components.

1. Every company offered a product or service for sale.
2. Every company sold its product(s) or service(s) to a certain class of customer or end user.
3. These customers or end users always resided in certain categories of markets.
4. Every company employed technology in its product or service.
5. Every company had a production facility located somewhere that had a certain amount of capacity or certain in-built capabilities in the making of a product or service.

Our contention is that one of the ten components of a company’s operation is the strategic engine behind the decisions that management makes.

6. Every company used certain sales or marketing methods to acquire customers for its product or service.
7. Every company employed certain distribution methods to get a product from its location to a customer’s location.
8. Every company made use of natural resources to one degree or another.
9. Every company monitored its size and growth performance.
10. Every company monitored its return or profit performance.

As a result of these observations, two key messages emerged. First, all ten areas exist in every company. Second, and more importantly, one of the ten areas tends to dominate the strategy of a company consistently over time. Favouring or leveraging this one area of the business time and again determines how management allocates resources or chooses opportunities. In other words, one component of the business is the engine of the strategy — that company’s so-called DNA, or Driving Force. This Driving Force determines the array of products, customers, industries, and geographic markets that management chooses to emphasise more and emphasise less.

In order to explain this concept more clearly, one needs to look at an organisation as a body in motion. Every organisation, on any one day, is an organism that has movement and momentum and is going forward in some direction. Our contention is that one of the ten components of a company’s operation is the strategic engine behind the decisions that management makes. Some typical examples follow.

A Strategy Driven by a Single Product or Service

A company that is pursuing a product-driven strategy has deliberately decided to limit its strategy to a singular product and its derivatives. Therefore, all future products and the “current” product are linear, genetic extrapolations of the very first product that company ever made. In other words, the look, form, or function of the product stays constant over time. Such companies grow by offering product derivatives that fragment and grow the market. Examples are Coca-Cola (soft drinks), Boeing (airplanes), Michelin (tires), Harley-Davidson (motorcycles), and many of the automobile manufacturers (GM, Toyota, Volkswagen).

Strategy Driven by a User or Customer Class

A company that is driven by a user or customer class has deliberately decided to restrict its strategy to a describable and circumscribable class of end users or customers (people). These end users or customers are the only ones the company serves. The company then identifies a common need of the user or customer class and responds with a wide array of genetically unrelated products. Examples are Johnson & Johnson (doctors, nurses, patients, and mothers), AARP (adults over 50), and Cancer Treatment Centers of America (patients with advanced stage or complex cancers). User/customer class companies grow by expanding the pool of users they serve and/or by expanding the set of needs they address.
Strategy Driven by Market Type or Category

A company that is driven by market category has deliberately decided to limit its strategy to a describable marketplace or market type. The company identifies a common need among buyers in that market and then responds with a wide variety of genetically unrelated products, adding to this stable as market conditions change. Examples are Staples (supplies for offices), Disney’s concept of “wholesome entertainment for the family” and Singapore Technologies Aerospace (the largest non-airline MRO in the world).

Strategy Driven by Technology/Know-How

A technology-driven company is rooted in some basic, hard technology, such as chemistry or physics, or some soft technology, such as know-how or expertise. The company then goes looking for applications for its technology or expertise. Once it finds an application, the company develops a product that is infused with its technology for that application, and offers the new product to all the customers in that market with a similar application. While growing that business, the company goes around looking for another application to repeat the same process. Examples are DuPont (chemistry), 3M (polymers), and Intel (microprocessor architecture).

UPS is an example of a company that transformed itself by changing its Driving Force from Distribution Method (package delivery network) to Know-How (logistics), opening up a range of new service opportunities.

Strategy Driven by Production Capability or Capacity

A company driven by production capacity has a substantial investment in its production facility. The key phrase heard around the company is “keep it humming” — three shifts per day, seven days per week, 365 days per year. The strategy is to keep the production facility operating at a maximum level of capacity. Examples are steel companies, refiners, and pulp and paper companies. Service related companies, firms such as airlines and hotels, are also often “production capacity” driven.

A company driven by production capability has incorporated some distinctive capabilities into its production process that allows it to do things to its products that its competitors have difficulty duplicating. As a result, when the company goes looking for opportunities, it restricts its search to opportunities in which these capabilities can be exploited. Specialty converters in a variety of industries fit this category.

Strategy Driven by Sales or Marketing Method

When a strategy is driven by a sales or marketing method, the company has a unique or distinctive method of selling to its customers, such as Avon and Mary Kay. All the opportunities it pursues must utilise that selling method.

Strategy Driven by Distribution Method

A company driven by a distribution method has a unique or distinctive approach to moving tangible or intangible things from one place to another, such as Wal-Mart, FedEx and Netflix.

Strategy Driven by Natural Resources

A company whose entire purpose is the pursuit and exploitation of natural resources such as oil, gas, ore, gold, timber, or other resources, such as Exxon, Shell, and Newmont Gold.

Strategy Driven by Size or Growth

A company driven by size or growth is usually a conglomerate of unrelated businesses. Its sole strategic interest is growth and size for their own sake.

Strategy Driven by Return or Profit

A company whose sole strategic focus is a minimum level of return or profit is also a conglomerate of unrelated businesses. Western examples such as Tyco, AlliedSignal, and General Electric are decreasing, but due to different market and political structures, return/profit firms remain prevalent in Asia, such as Jardine Matheson (Hong Kong), Keppel Group (Singapore), Fuson International (China), CP Group (Thailand) and Chaebol (Korea).

Key Strategic Questions

When we take a client through our Strategic Thinking Process, we ask the CEO and the management team to debate three key questions to enable them to identify the company’s current and future Driving Force.

QUESTION 1: Which component of your business is currently driving your strategy and has made you look as you look today in terms of current products, customers, and markets?

If there are ten people in the room, how many answers do you think we get? Ten, and sometimes more … the reason
The Driving Force the company chooses as the engine of its strategy will determine the choices its management makes as to the products, customers, and markets that they will and will not emphasise in the future.

QUESTION 2: Which component of the company should be the Driving Force behind the company’s strategy in the future?

Future strategy should not necessarily be an extrapolation of the current strategy. Any strategy needs to accommodate the environment the company will encounter in the future, and that environment could be very different from the one encountered in the past. This question is the basis for envisioning “breakaway” strategies that explode the assumptions of the current sandbox to envision a new one that offers significantly greater opportunities to establish supremacy over competitors. Such a strategy enables the company to create, or reposition itself in, a future sandbox in a way that offers it more growth and profitability than competitors, and control of that sandbox.

Since different Driving Forces bring different growth characteristics, the desire to achieve higher growth is often the primary rationale behind a change of Driving Force. Montblanc is an example; from product (pens) to customer/user class (luxury accessory needs of business executives). Teckwah Industrial Corporation, a DPI client based in Singapore, is a rarity, having successfully changed its Driving Force twice in recent years.

The Driving Force the company chooses as the engine of its strategy will determine the choices its management makes as to the products, customers, and markets that they will and will not emphasise in the future. These choices will shape the profile of the company, and maybe even the industry, over time. Each Driving Force will cause management to make very different choices that will make the company look very differently than the way it looks today. In other words, just as your personal DNA determines what you look like and why you look differently from other people, the same is true for your corporate DNA. The company component you select as the DNA of its strategy will determine what that company will eventually look like and what will differentiate it from its competitors.

The concept of Driving Force — to us at DPI — is fundamental for any successful CEO to understand. It is the recognition and understanding, by all members of the management team, of that one predominant component of the business — its Driving Force — that will allow the organisation to formulate a strategy based on a distinctive and sustainable advantage that can give it long-term supremacy over its competition.

The perils of failing to gain consensus on the business’ Driving Force and resultant strategy can be deadly. At what turned out to be the key crossroads of its story, Digital Equipment Corporation had three different management camps that the CEO never rationalised, leading to schizophrenic strategic behaviour. The company stagnated before eventually being acquired by Compaq (and that’s another story!)

Each Driving Force brings with it a requirement to excel in a very different set of skills. No company can out-excel its competitors across the board. One cannot out-muscle every competitor in the market. Therefore, it becomes important to identify the company’s Driving Force and the corresponding Areas of Excellence, which are then given preferential treatment. These areas keep the strategy strong and healthy and build a long-term strategic advantage over competitors.
Stealth Competition in the UK Grocery Sector

by John Acton — Senior Partner, DPI Europe

Our experience with thousands of companies in nearly every industry has led us to believe that every robust strategy process must look beyond the conventional competitive environment and uncover any unexpected force that may disrupt your business arena. DPI has named this competitive force the Stealth Competitor. The Stealth Competitor—or disruptor—has the ability to enter an industry and dramatically change the way the game gets played. The disruption caused by Aldi and Lidl to the UK grocery sector is a very recent example of how the Stealth Competitor has wreaked havoc on an industry.

For the “Big 4” (Sainsbury’s, Asda, Tesco and Morrison’s), their Stealth Competitors didn’t even appear on their radar. Let’s take a closer look at how Aldi and Lidl have reshaped the Grocery Sandbox and changed the rules of the game:

The rise of the LADs (limited assortment discounters):

Despite their strong market position, the Big 4 have experienced significant declines in recent years. Tesco has dominated the media in recent months with the departure of Chief Executive Phillip Clarke. A further investigation into misreported profits culminated in their Chairman also announcing his departure.

Shoppers meanwhile have started to turn to the LADs such as Aldi and Lidl. Both Aldi and Lidl entered the UK market in the early 1990s and after 2 decades of moderate success, they seem to have finally built a killer proposition that resonates with UK shoppers. This has contributed to stellar growth since 2010. Lidl now has more than 600 stores in the UK and Aldi more than 500. Aldi expects to generate record sales of £7bn in 2014 and Lidl UK expects to enjoy a similar turnover.
Impressively, whilst Aldi’s share of market is still modest, it has managed to reach No 1 in YouGov’s list of favourite brands, overtaking John Lewis and Samsung. It also expects to announce a 25% jump in annual sales when it issues its full-year figures. In comparison, October 2014’s Kantar figures showed Tesco’s sales to be down 1.5% year on year; Sainsbury’s down 4% and Morrison’s down 4.6%.

The Stealth Competitor—or disruptor—has the ability to enter an industry and dramatically change the way the game gets played.

**DPI’s Stealth Competitor Process enables leaders to flush out hidden threats.**

How the two Stealth Competitors, Aldi and Lidl, have turned the grocery sector upside down:

The Big 4 have been playing to one set of rules; providing choice, a multi-channel shopping experience, and customer-focused add-ons such as loyalty schemes. They have built a price strategy centered around defending themselves from each other. They have invested heavily in price-matching schemes, as a cornerstone of their strategy to compete on price with each other.

Behind the scenes, the discount retailers have been changing the rules in the Grocery Sandbox. They have been truly customer-centric in building their offer. They are reshaping the way we shop, and we like it!

There are several key tenets to their strategy:

1. **Becoming “more British”**
   Their success has partly been the result of a wide-ranging customer review into customer perceptions commissioned in 2010, which showed for instance that shoppers wanted them to become “more British.”

   They now source all their fresh meat, milk and eggs from Britain.

2. **A more limited offering**
   The secret to their business model is having a limited range of goods. While Aldi sells 1,500 lines, a Tesco supermarket can sell 40,000. Ronny Gottschlich, the UK boss of Lidl puts it succinctly: “If you [and another customer] don’t know each other, would you like to pay for his choice of a different type of water? If you go to another retailer that has got 20 different types of water, someone has got to pay for that space, someone has got to pay for that rent.”

   Whilst breadth of choice is a unique selling point for the big hypermarkets and superstores, not only is the customer paying for this, but to some extent they are bamboozled by it. Sales are declining in the large format stores; there is **too much choice**.

   For cash and time-strapped shoppers, the simplicity of Aldi and Lidl is appealing.

3. **Capitalising on longer and more short-lived trends**
   They have also shrewdly cottoned on to trends, such as locally-sourced produce and producing dinner-party show-stoppers at bargain prices. The fashionable and decadent steak of the moment is Wagyu, and Aldi sells Waygu sirloin for just £6.69. In a sport-obsessed summer, with the Tour de France in Britain, they launched a limited range of high-end bikes and a £65 GPS watch that measured your heartbeat, location, as well as the time.

4. **An assurance of quality at the lowest price**
   Perhaps most importantly, they have seduced the shopper by offering random luxury goods, such as lobster tail and prosecco at incredibly affordable prices. This has created a viral buzz about the new Aldi and Lidl. In addition they carry international lines that have growing appeal. Whether it is extra virgin olive oil, Parma ham or mascarpone, the prices are significantly lower than those in both Waitrose or Tesco. They have also recently introduced fine wines into London stores in a bid to attract more affluent shoppers.

DPI’s Stealth Competitor Process enables leaders to flush out hidden threats like these. Had the Big 4 searched out the Stealth Competitors they might not be in the defensive position they find themselves in today. The LADs are becoming seemingly unstoppable. They have changed the game, they are dictating the new rules of engagement in the sandbox. The Big 4 and Waitrose were so busy watching each other they missed the Stealth Competitors. This is a good example of why the DPI Strategic Thinking Process includes focus on understanding your sandbox and the potential entrance of Stealth Competitors.
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“Once again, the capable team at DPI has taken a difficult topic and applied their extensive experience in Strategic Thinking and execution to provide a well structured, simple, and easy to follow approach to building a winning organisation.”

— Martin Banner, CEO, National Airways Corporation

“We thought that if we went through DPI’s Strategic Thinking Process, we would get a common understanding and buy-in to our business philosophy. And it definitely achieved that objective.”

— Laurie Dippenaar, CEO, First Rand Limited

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GeoPost, Europe’s largest road-based express parcel delivery service, nearly suffered the same fate. But through a unique capability of DPI’s Strategic Thinking Process, the company uncovered an unseen “Stealth Threat” from the e-commerce arena, avoided disaster and created a profitable growth business.

An Initial Strategy Review

GeoPost had expanded steadily over a decade from its beginnings in France, through a combination of acquisitions, joint ventures and organic growth. The company concentrated on a Business-to-Business model, serving the needs of corporations and retail shops, not individual consumers. Its network had spread to include most of Europe, UK, and parts of Russia, China, India, South Africa and even the U.S. Today GeoPost Group employs some 24,000 people, with revenues approaching €5bn, mainly under the DPD brand.

In 2008, CEO Paul-Marie Chavanne decided the company needed a strategic review. Based on a recommendation from one of GeoPost’s key executives, Chavanne opted to use DPI’s Strategic Thinking Process to assess the company’s strategy and future direction with DPI Senior Partner, Craig Bowers, as lead facilitator. Chavanne explains, “The way I was introduced to DPI was that I had decided to appoint the first COO for the GeoPost Group, Kay Phillips, who had been CEO of the UK business unit. It had become too big for me to manage all of the issues myself. So Kay accepted, and said, ‘If we’re going to do this right, there is something we need to do first. I know of a strategy consulting company called DPI, who has an absolutely fantastic process for creating and deploying strategy. We need to make sure the business units are all together on our strategy and this process is excellent for that.’ She had a very good experience with DPI in the UK, and recommended we take our CEOs and other senior managers from most of the BUs through DPI’s Strategic Thinking Process.”

Says Phillips, “I had been through a traditional consultant’s strategy project previously, and I was not very impressed. They tended to write a strategy along the lines of the CEO’s thinking which was then communicated to the managers. In contrast the DPI approach involves your key people from the start—giving them the opportunity to use their knowledge of the industry, market and customers to...
create your strategy, a strategy deployment structure, and an excellent process for delivering results. It also is very valuable in developing managers, bringing them new insights and skills. The financial results were good for us in the UK. We delivered growth, major investments were made and profitability was up.”

The 2008 GeoPost Group strategy team included about twenty key managers, including CEOs of most of the various business units across several countries, many of them recently appointed.

Chavanne explains, “Instead of delivering hundreds of slides and lessons to the management, as many consultants do, this process is mainly based on the work and thinking of the people themselves. So they create the strategy. I was very impressed by the methodology, by the questions that were raised before beginning the meeting. Everybody received a detailed questionnaire with questions presented in a very precise way to gain initial inputs.

“From the beginning, I sensed the real essence of DPI’s methodology, which is to drill down into the fundamentals of the business to help us clearly understand what we were doing in order to discipline our minds. It was not to merely create empty words, which is always the risk with strategy development, but to drive us to develop a very deep link with our substance and consistency, to really understand and agree on what the essence of our company is,” says Chavanne. “I think, in business life and in life in general, you always believe that you understand what you are doing. But in fact, when you drill down a little bit, you discover that the situation may be more complex than what you initially believed.”

Driving Force, the Heartbeat of Strategic Thinking

“An important part of the process for us was to select our Driving Force,” Chavanne recalls. “We selected a Distribution Driving Force after a great deal of discussion, which gives us a definition of what aspects of the business we will need to emphasise and nurture in the future. It was a big mind-shift for everyone, but it became accepted because everyone could eventually see the part they would play.”

Says Kay Phillips, who has since retired from the company, “At first, some people could not understand how you can have just one Driving Force. ‘Aren’t all of the parts of the business important?’ That’s where the experience of our DPI facilitator, Craig Bowers, came in. He explained examples of how various companies had chosen their Driving Forces, and how that choice has deep implications for what the business will be in the future. That helped our strategy team to understand why one area of the business drives it forward—in our case, our Distribution Network—but that every area contributes support to make it stronger.”

As the GeoPost management team progressed through the process, they gained a new understanding of the combined businesses, and the differences and commonalities between the various countries and business units. But no startling revelations had come to light—until the very last step. Chavanne explains, “We were in the position where most of the businesses were profitable, going well, good growth. Everything at that time appeared very calm, very strong, without any clouds on the horizon.

“If we’re going to do this right, there is something we need to do first. I know of a strategy consulting company called DPI, who has an absolutely fantastic process for creating and deploying strategy. We need to make sure the business units are all together on our strategy and this process is excellent for that.”

—Kay Phillips

Kay Phillips, former COO, GeoPost Group

“Instead of delivering hundreds of slides and lessons to the management, as many consultants do, this process is mainly based on the work and thinking of the people themselves. So they create the strategy.”

—Paul-Marie Chavanne
This was our mindset.

“We were very satisfied at this point because we realised that we were going much deeper into a knowledge of what we were doing as a business. The atmosphere was very optimistic. There was no big shift indicated, just that we were all thinking together. But then the exercise I call the ‘Stealth Threat’ was a big one for us,” says Chavanne.

This phase of the DPI process enables teams to scan their business arena, including adjacent “sandbox” as well as trends in technology, demographics, and so on, to look for the potential of unexpected new competitors and disruptive threats.

**Stealth Threat, a Startling Realisation**

Chavanne explains, “In that exercise, at first we didn’t see any threats. And then, two of the teams looked at the Business-to-Consumer market, which we were not really involved in then. For the traditional B-to-B express delivery player, B-to-C was thought to be a bad game. Postal operators drove that field of the business with low price, bad commercial habits, and so on.

“And somebody said, ‘Hey guys, when you look at the trends, when you look at what some people are now feeling about the development of the Internet, what could happen if in a few years the Internet, e-commerce, explodes?’ In 2008 the Internet was in existence but it was not what it is now. It was a smaller business.

“Then somebody else said, ‘What it means for our business is that the shops, our core customers, will suffer and our growth in B-to-B will come to zero, perhaps even be negative. So what would that mean for us?’ And suddenly everyone began to discuss that issue. It was a fantastic experience. In three hours of discussions we all came to the conclusion, without trying to force anybody to agree, that if the B-to-C business were really growing, it would threaten all of our B-to-B business, and our entire business model.

“We were very satisfied at this point because we realised that we were going much deeper into a knowledge of what we were doing as a business. The atmosphere was very optimistic. There was no big shift indicated, just that we were all thinking together. But then the exercise I call the ‘Stealth Threat’ was a big one for us,”

—Paul-Marie Chavanne

Throughout the next couple of years the B-to-C strategy teams in the various GeoPost business units set out to assess the e-commerce trends in their markets and form ideas about how to mitigate the threat or turn it into an asset.

**Revisiting the B-to-C Concept**

In 2011, Chavanne felt it was time to take another look at the company’s strategic assumptions, with the B-to-C issue at the forefront. Once again he brought in DPI.

“The result of that refresher session with DPI was that we confirmed, because of what our teams had been learning, that B-to-C was in fact the key question,” says Chavanne. “By this time the development of the Internet was proven to be the future. So because of these two strategic sessions with DPI we decided to progressively convert our pure B-to-B express parcel network into what we now call a hybrid B-to-B and B-to-C express parcel network.”

**Managing Critical Issues Across the Network**

Systems, processes, people, assets —everything in the company—would be involved. Given the complexity of the undertaking, a comprehensive project management system needed to be put in place, under COO Phillips’ direction.
“One of the great things about the DPI process is that it brings an excellent structure to manage the strategy through the Critical Issues,” Phillips explains. “As an output of the strategy process, we set up the Critical Issues list. We certainly had to have a multi-option B-to-C proposition that would be flexible to fit differences between countries, yet seamless to our customers. We would have to know exactly what we needed to change in every unit — in sales, IT, customer service, operations, marketing. And there would be quite a major requirement for investment. It touched every area of the business.

“One challenge, for example, was that our volume, let’s call it 500,000 parcels per night, could increase by a third or more to maybe 700,000 per night in the run-up to Christmas in B-to-C, which doesn’t really happen in B-to-B. We had to be very clever about how to add people and facilities to cope with that, so we would not damage service.

“So we set up the Critical Issues project teams whose individual plans had to be aligned with the ‘umbrella’ Critical Issues. The teams reported to our central program office to monitor progress and assure alignment across the business units,” says Phillips. “An important issue was cost control. Because of the investment that would be needed, a ‘war on cost’ was launched. We eliminated millions through process improvements, sharing of best practice and expertise, and a greater alignment to our strategic common goals. We came out of it a stronger company with a new, much lower cost base. Every business achieved its goal.

“Another major Critical Issue was rationalisation of IT. All our systems, many of which were legacy systems from acquisitions, needed to be able to communicate seamlessly to handle this new business and growth. We identified that the increased European and international flows in B-to-C could put a strain on the system, so we invested €10m to ensure that we had an effective IT system and capacity for the future,” Phillips states.

A Strategic Filter for Decisions

The management teams of the business units went about building solutions based on the umbrella plan, but tailored to the needs of their own markets. To do this effectively they needed to have the flexibility to make local decisions quickly, being sure they were in harmony with the Group strategy, without having to get approvals from Group management every time. A Strategic Filter, a check list of strategic criteria created in the DPI process, was instrumental in enabling them to make these decisions on their own.

“We used that Filter across all the projects that were managed centrally, and locally,” says Phillips. “It was crucial because with all these teams working in parallel, if everyone understands the strategy and uses the Filter you don’t need to have endless discussions. You put the decision through the Filter, come to a conclusion and move on. It helps you work very efficiently from strategic and time perspectives.”

Implementing a Success

Over the ensuing years, the new hybrid B-to-B/B-to-C model came together and is now producing solid financial results. Says Chavanne, “In 2008 our EBITDA was approximately 7% of our revenues, today it is about 10%. Our revenue is approximately 60-70% higher. We increased our EBITDA by 30% in terms of income and sales. All this despite major investments. And this concept of hybridisation—B-to-B and B-to-C in the same network—is directly the fruit of that DPI session. The beauty of it is that today we’ve realised something unique, for the time being in Europe—a full hybrid B-to-B/ B-to-C network with very imaginative solutions. We have invented a lot of new products for B-to-C because we knew it was a difficult market and we knew that we’d have to have innovative new solutions to grow. We still have three or so more years of work to do on this but the growth and results are very positive.

“We are happily living with the fruit of these two DPI sessions. I am very passionate about the DPI Strategic Thinking Process because it totally changed our view and obliged us to move outside of the box and think of our market differently, to have a new approach to this B-to-C market,” says Chavanne.

“Clearly, one of the greatest results is that people realise that it is really about doing Strategic Thinking together.”

—Paul-Marie Chavanne
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