The Dilemma Of Dairy Farm Group Between Redesigning of Business Processes and Rebuilding of Management Information Systems

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EXECUTIVE SUMMARY

The Dairy Farm Group of Companies (DFG), is a leading food and drugstore retailer in the Asia-Pacific Region. DFG and its associates operated supermarkets, hypermarkets, convenience stores and drugstores in nine territories and had sales of US$6.9 billion in 1997. However, the profit margin of DFG was low compared to its competitors in Hong Kong and China and other retailers in Europe and the U.S. Consequently, a new chief executive officer was hired in June that year. The new management team hired the services of two consulting firms to independently carry out a preliminary investigation of existing systems at DFG and to recommend solutions. Firm A stressed primarily the development of a management information system and use of emerging trends in technology and firm B focused on the re-engineering of crucial business processes with supporting technology. If you are the management team, which firm will be awarded the contract?

BACKGROUND

The Dairy Farm Group of Companies (DFG; http://www.dairyfarmgroup.com/dfarm_graphic/corporate/default.html), is a major Hong Kong-based food retailer with operations in a large number of major cities in the Asia-Pacific region. DFG's shares were listed on the Hong Kong, Singapore, Bermuda, London and New York Stock Exchanges. The primary share listing of the parent company, Dairy Farm International Holdings Limited, was in London and the bulk of its shares were traded in Singapore. The Company was incorporated in Bermuda and its businesses were managed from Hong

Kong by Dairy Farm Management Services Limited through regional offices in Asia and Australasia. Fifty-five per cent of DFG's shares were owned by Jardine Matheson Ltd. and the balance was held by the public (http://www.dairyfarmgroup.com/dfarm_graphic/corporate/annual/97/ann10.htm).

Sir Patrick Manson, a Scottish surgeon, and five prominent Hong Kong businessmen formed Dairy Farm with the objective of supplying cow's milk to Hong Kong people in 1886. In 1904, the Company began importing frozen meat and opened its first retail store at the Central District depot, and by 1957, it had three retail stores and had started expanding its product range, marking the start of its transformation into a major food retailer and distributor. By 1986, its centenary year, it had more than 300 retail outlets, including the Wellcome grocery chain. It had become a leading force in the manufacturing, wholesaling and distribution of dairy and other food products in the Pacific region and in China. In the same year, the Company acquired a 50 per cent interest in the Maxim's chain of restaurants in Hong Kong. In 1987, it acquired 25 per cent of Kwik Save Group plc - the sixth largest grocery retailer in the UK–and commenced supermarket operations in Taiwan.

The Company subsequently acquired 228 branches of the 7-Eleven convenience stores from Jardine Matheson in 1989, followed by acquisition of the 108-store Simago chain in Spain and the 61-store Woolworths chain in New Zealand in 1990. Other major expansion activities included the establishment of a 49 per cent-owned joint venture with Nestlé to develop dairy factories throughout China in 1992, acquisition of the 142-store Cold Storage chain in Singapore in 1993, establishment of a 50/50 joint-venture with Cold Storage and joint ventures to develop supermarkets and discount stores in Malaysia and Japan in 1994 and 1995 respectively. In 1995, it also signed agreements with the Hero group in Indonesia and the RPG group in India to manage and develop supermarket chains in the two countries. In 1996, Guardian pharmacy joint ventures were established in Malaysia and India and a 51/49 supermarket joint venture was formed in Sichuan.

By 1997, it had operations in all major cities in the Asia-Pacific region, Australia, New Zealand and Europe with the Asia-Pacific being the most profitable region (Exhibit 1)[1]. In order to concentrate on its core retailing business in the Asia-Pacific region, DFG disposed of its 49 per cent interest in Nestlé Dairy Farm to Nestlé and decided to close down the loss-making Mannings drugstores in Taiwan and the Wellsave discount stores in Japan. As of December, 31, 1997, DFG operated 1,352 outlets, principally supermarkets, convenience stores and drugstores, and employed some 45,600 people. It had also entered into the restaurant business through a 50 per cent interest in Maxim's Caterers Limited, Hong Kong's largest restaurant and catering company with more than 300 outlets in Hong Kong and Mainland China. The reported sales and profit figures for the year 1997 were US$6.9 billion and US$154 million respectively (Exhibit 2). While DFG operated on a sales-to-profit margin of 2.23 per cent in 1997 and 1.98 per cent in 1996, competitor A.S. Watson Group, comprised of the Park'N Shop, Watsons and Fortress chain of stores in Hong Kong and China, had a 9.22 per cent sales-to-profit margin in 1997, up from 5 per cent in 1996. Another competitor, US-based Wal-Mart, reported a 2.92 per cent margin in 1997. The profit margins of DFG was low as compared to its competitors in Hong Kong and China and other retailers in Europe and the U.S .

DFG's business mission was: "To be the leading food and drug store operator in sales and shareholder value creation in Asia-Pacific". To successfully pursue its business mission it was crucial for DFG to redefine its business strategy towards "sensing and responding to customer needs" as opposed to the traditional "buying and selling". In order to retain its dominant position in the Asia-Pacific region, DFG had decided on a new business strategy. Firstly, the strategy entailed defending its existing markets through a process of rationalisation focused on the disposal of, or closure of, its non-core operations. Such a process was expected to put DFG in a position to expand its core operations and become a dominant player in each of its chosen markets. A combination of acquisition and rapid establishment of new formats funded from its cash-rich position was decided upon. The second component of the strategy was to respond to the increased competitive threat through changes to its organisational structure, and in this respect it had decided to de-federate its businesses and

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