

DHL: Promise to Deliver

By Nagami Kishi

Which corporation do you think has the greatest network in the world in terms of the number of countries in which it operates? It isn't Coca-Cola, nor American Express, but us. We have offices in 186 countries, which is more than the total number of members of the United Nations."

The speaker is Shinichi Momose, president of DHL Japan, part of a group which is a global leader in the express delivery of documents and packages.

DHL started business in the 1960s, seeing an opportunity in complaints by businesses in the United States about the inadequacy of the postal service. At that time there could be a delay of many days between the arrival of goods shipped from, say, California to Honolulu, and of the separately mailed documentation. DHL decided it could do better by not only shipping goods but also documents as well.

Its service area extended from Hawaii to Guam, and then to Japan during the three years after the start-up of its business in the United States. On the inclusion of Japan into its service area, DHL opened a Japan branch, which at the beginning was a one-man operation by Kenneth D. Sato—a lone employee who also doubled as the janitor.

Since the name of the DHL Group was totally unknown in the Japanese market, the lone representative patiently made visits to prospective customers, such as trading concerns, banks and shipping companies. As the benefits of the service were increasingly recognized, the Japan branch began to double its sales every year. It rapidly increased the staff level as the business required, and in 1979 the Japanese subsidiary was established.

At the beginning of the 1980s, when the number of countries covered by DHL reached 150, its business faced a serious threat. Attracted by the success of DHL, strong competitors entered the market. These included Federal Express and

UPS, which began to emphasize their international services.

Perhaps inevitably, the sales of DHL leveled off. While it had expanded the size of its organization as the international business circumstances automatically increased the demand for the parcel delivery service, it had never seriously questioned whether its quality of service was really meeting the needs of customers. Various views were expressed in the company's different branches around the world on ways to streamline the organization.

Customer complaint

This was the situation when Momose joined DHL Japan as the director of the sales and marketing department in May 1985. In less than a year he moved up to become general manager.

On graduation from college, Momose had joined Olivetti Japan, where he stayed for 15 years. After Olivetti, he worked for two other foreign companies, first Black & Decker and then American Express.

"As soon as I joined DHL Japan, I saw an employee having trouble with a customer. I asked him about it and found out that the customer was refusing to pay an increase in charges that had been implemented the month before. An investigation showed that we charged more than our competitors. It was quite natural for the customers to refuse to pay more for exactly the same service."

When he asked the management of DHL Japan why they made such an increase, they said they were following the instructions of the Hong Kong office, which covers the East Asian region. He flew to Hong Kong to discuss the matter, and found the circumstances quite different from what he had understood them to be. The Hong Kong management said they had sent an instruction for the Tokyo office to take some measures to improve profits, which had been sluggish for some

time. The increase in the fee was only one of the options they had suggested.

The decision to raise the price was made by the representative of DHL Japan, not the Hong Kong management. Momose decided to use an external research institute to make a study of the fees and quality of service offered by the competitors. He flew to Hong Kong again, this time with the survey to support his argument that the increase in fee by DHL Japan was unreasonable. The Hong Kong management agreed to revoke the fee. This was only one of many reforms in the organization, service and business operation of DHL Japan that he implemented.

The business of DHL requires much labor and time for collecting parcels and documents. Regular users specify the time for collection, according to which the collecting staff go the rounds of the users' offices. The time schedule, however, is often not met; some users fail to prepare their parcels and documents by the specified time and make the collectors wait, and others have the collectors make a second visit for additional parcels. In the worst cases, unscheduled visits and waiting time prevent them from getting the parcels they have collected during the day to the airport in time.

In order to eliminate various problems involved with parcel collection, Momose decided to build a computer system. He had every collecting vehicle, which at present total 168, fitted with a computer terminal for the collector to report every parcel collection he has made. When users request the collection of additional parcels, the headquarters immediately direct the nearest available collector to go and get the parcels. If one collector has too many parcels to collect, the headquarters checks which collector is nearest and has room for additional work and directs the second collector to help the first. This system allows the headquarters to grasp the latest progress of the entire collection work of the day.

Momose says, "Before me, DHL coped with the expanding demand simply by increasing people and vehicles. It never thought of how it could improve collection efficiency or service quality. There was no need to do so, because the sales doubled every year just by meeting demand in terms of quantity."

Along with the introduction of the computer system, he improved the routes used by the collecting vehicles as well as the collecting system itself. Also, he put into effect the radical streamlining of the organization, including the management. These measures achieved a considerable saving in costs and labor, more than making up for the canceled fee increase in a very short period.

Local leeway

There are two types of foreign companies that operate overseas subsidiaries: the first type tend to enforce their own ways of doing business on their subsidiaries; the second leave each of their subsidiaries to conduct the entire business in the local market on their own. Momose has seen both types in his long experience with foreign companies.

"Partly due to the way it grew, the DHL headquarters are extremely generous in allowing local managements to do as they like," Momose said. "Taking me as an example, I have very few issues for which I require the approval of headquarters before making a decision. For example, marketing strategies and personnel affairs. When I saw the Hong Kong management, the first thing I complained of was that they had broken their promise that they would leave decision-making to the Japanese management, although I soon learned that this was a misunderstanding due to the wrong approach taken by the Japanese side."

After the reforms Momose carried out, sales turned upward, growing by 18% to 20% every year thereafter. DHL Japan achieved record sales of ¥15 billion in 1990, and projects ¥17.5 billion for its 1991 sales. This level of sales, ¥15 billion, is the third-biggest in the 186 DHL offices, after the U.S. and British branches. DHL Japan is almost overtaking the British; the

sales of Japan and Britain are so close that the ranking of these group companies changes depending on the exchange rate between the two currencies. DHL Japan is the greatest contributor in the group in terms of profit.

At present, the DHL Group consists of two organizations: DHL Corporation, which takes charge of the U.S. market, and DHL International with its headquarters in Brussels, Belgium, which handles the rest of the world. Japan is under the control of the latter.

Last December, the DHL Group entered into an affiliation agreement with Japan Airlines, Lufthansa German Airlines, and Nissho Iwai Corp., a large trading concern. The group allowed JAL and Lufthansa to have a 5% interest each and Nissho Iwai a 2.5% interest, and gave them an option to increase their holdings within 18 months—the two airlines to 25% and Nissho Iwai to 7.5%.

Momose says, "At present, we are the top global air express company. Looking just at parcels sent from Japan, for example, we have a 20% share of the aggregate volume on a revenue basis. We could not be sure if we could maintain this position because of the threat from UPS and Federal Express. UPS already has its own airplane, and Federal Express has acquired Flying Tiger, a cargo airline, in addition to its own airplane, to concentrate on this business. Both companies have larger markets than we do in the United States. Gaining sufficient strength to compete with them is the main reason we accepted the investments by JAL, Lufthansa and Nissho Iwai. I am sure that affiliation with DHL will also provide great benefits to the airlines and also our customers."

Rival rates

In Japan, too, these competitors are promoting aggressive strategies to win a larger market share; they even offer their service at rates below the minimum profitable level. Momose expresses his confidence, saying, "The headquarters entrusts us with all the business in Japan. Our customer list covers almost all the listed companies on the Japanese stock markets. The latecomers, on the other



hand, act as they are directed to by their headquarters at home. The difference is still large."

In spite of the favorable environment at present, Momose is busy preparing for the future by making further improvements in customer service. These include dispatching employees to user companies to show them how to prepare parcels, and further computerization of the operation.

Recently, Japanese subsidiaries of foreign companies have begun to succeed in enlarging their businesses one after another by radically changing their approaches, such as by allowing Japanese managers considerably more latitude. This is a new trend toward "human restructuring" that has recently been observed around the Japanese business scene. Momose is a typical example of this trend.

Looking back at his long experience of working with foreign companies, he says, "When I was employed as the representative of a foreign company I worked with before DHL, the top management of the headquarters later confessed to me that when I applied to join them I was the poorest speaker of English of all the candidates. The company selected me because it knew that ability in speaking English and that of doing business should be evaluated separately. Many still confuse these two qualities. They dare not have confidence in their Japanese managers, who they recruited because of their ability in English, and refuse to allow them to do as they like. It is regrettable—but inevitable—that most of these companies are having difficulties here."

Nagami Kishi is a free-lance writer specializing in foreign businesses in Japan.