Embarking on the Journey of Digital Transformation

It's "Ready, Set, Go!" for Consumer Goods Companies

In an era where markets and consumer demands are changing rapidly, the business landscape for consumer goods companies has become unpredictable and requires swift decision-making. The traditional enterprise-focused value chain for B2C selling is fading away as a C2B focus becomes the new norm.
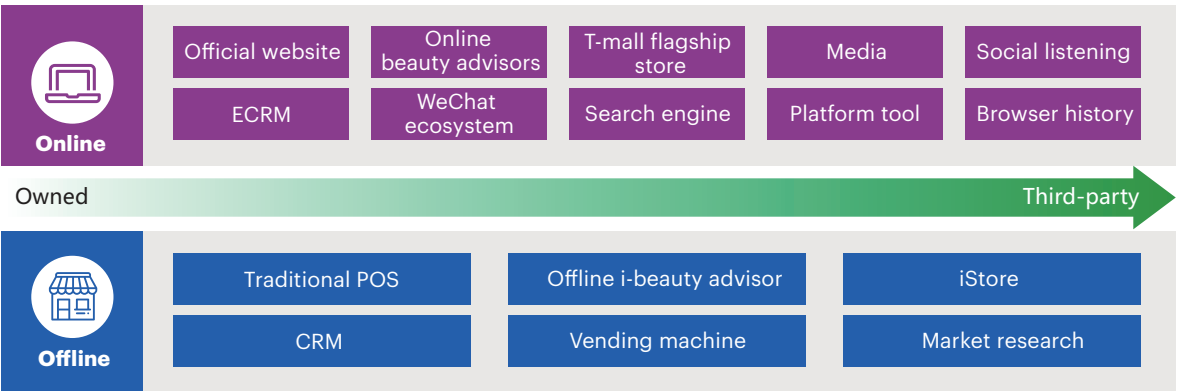
Preface

In an era where markets and consumer demands are changing rapidly, the business landscape for consumer goods companies—with ever-changing consumer needs and an evolving competitive scene—has become unpredictable and requires increasingly swift decision-making. The traditional enterprise-focused value chain for business-to-consumer (B2C) selling is fading away as a more consumer-centric consumer-to-business (C2B) focus becomes the new norm.

Transformation offers a tremendous opportunity for small but agile and innovative companies. The ability to quickly equip themselves and catch up with digital advances may enable these companies to break from the pack and build a significant presence in the reshuffled market. Traditional companies, especially industry giants focusing on their offline businesses, will fall behind if they fail to digitalize their core business and innovate.

But what exactly does digital transformation mean for the consumer goods industry? Simply put, it revolves around having ready access to data—especially consumer big data. Collecting significant volumes of consumer big data through a variety of channels, both internal and external, can provide invaluable intelligence on customer attributes, behaviors, and preferences. By doing this, businesses can deploy micro-segmentation with much more granularity than previously possible. Using predictive analytics to communicate "personally" with every customer, they can optimize the customer experience and increase loyalty. A data-driven approach to digital transformation can also help companies better understand how to shape product development, evolve business models, boost operational efficiency, and support innovation.

Leading Chinese e-commerce platforms and consumer goods companies are already actively experimenting with unlocking the value of data (see figure 1). Efforts have been made to collect massive consumer big data (such as through online and offline customer relationship management (CRM) and data management platform (DMP) systems, e-commerce platforms, smart stores, online-to-offline (O2O) strategies); channel data (such as distributor sales and inventory data, and point-of-sale (POS) data); and operational data (from the company's internal value chain). This data is undoubtedly highly valuable—if it is properly processed and used. However, for many companies—even the leading ones—unleashing the full value of data is still a matter of trial and error. Companies are enhancing their digital capabilities with constant exploration, application, improvement, and reapplication.

Figure 1
Sample omnichannel consumer data sources

| Online | Official website | Online beauty advisors | T-mall flagship store | Media | Social listening |
| | ECRM | WeChat ecosystem | Search engine | Platform tool | Browser history |

Owned → Third-party

| Offline | Traditional POS | Offline i-beauty advisor | iStore |
| | CRM | Vending machine | Market research |

Notes: ECRM is electronic customer relationship management. POS is point-of-sale. CRM is customer relationship management.
Source: A.T. Kearney analysis

Against this backdrop, many companies are wondering what commercial levers can ensure quick wins, and what key success factors (KSFs) are required for a successful digital transformation. If a company cannot identify quick-win levers, it will not know how to embark on the journey of digital transformation. It may be reluctant to take bold steps due to the heavy upfront investment and the absence of immediate results. If a company cannot identify and attain KSFs, it will struggle to create the virtuous cycle required to achieve far-reaching impacts.

Amid these uncertainties, there is some good news for consumer goods players. A.T. Kearney has developed a framework for digital transformation—a set of tangible, actionable levers and fundamentals to help companies ride the digitalization wave and seize the potential growth it offers (see figure 2).

Figure 2
Digital transformation framework
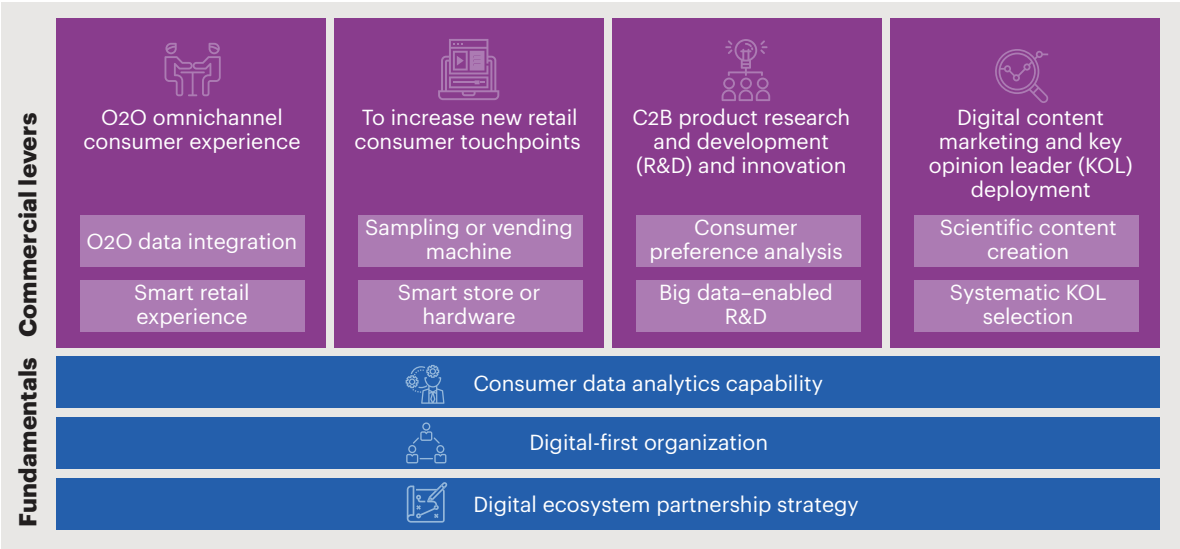
Notes: O2O is online to offline. C2B is consumer-to-business.
Source: A.T. Kearney analysis

A.T. Kearney analyzed the success stories of leading global beauty companies that capture and apply consumer big data. What emerged was a detailed picture of the commercial levers and fundamentals underpinning successful digital transformation. We believe this research would be a highly compatible reference for the overall consumer goods sector.
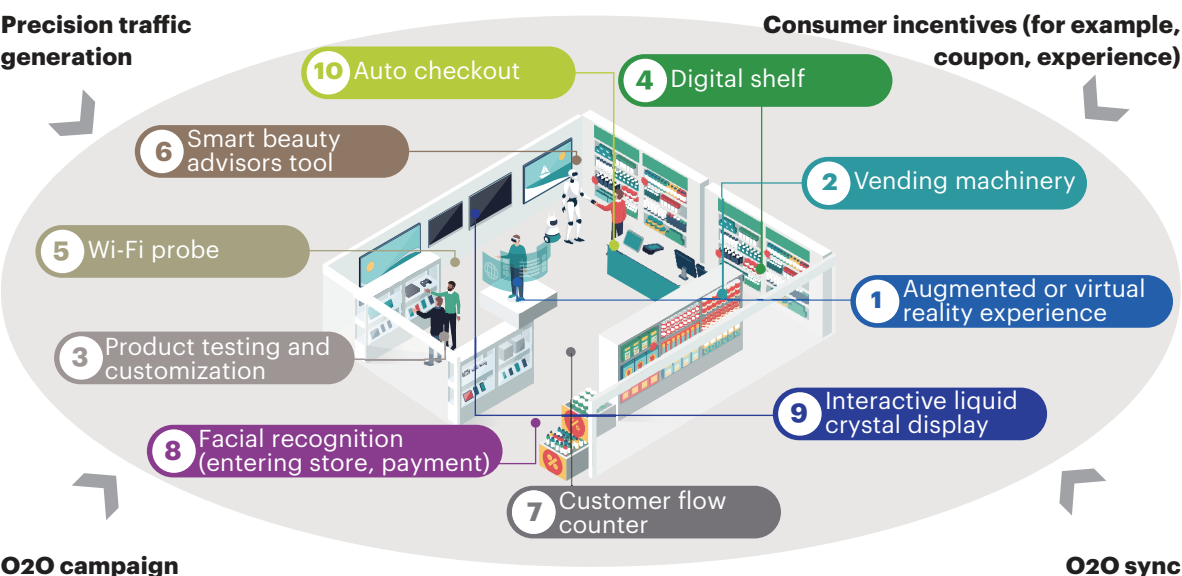
Commercial Levers

1. Use new retail smart stores to collect additional consumer data, drive comprehensive O2O integration, and offer an omnichannel consumer experience.

With the rise of online shopping, a company's own traditional brick-and-mortar stores and e-commerce stores may gradually diverge or even oppose each other. Over the past couple of years, a number of cutting-edge international and local beauty and apparel brands operating

e-commerce platforms have established smart stores to partially address this segregation. Smart stores integrate online and offline consumer data, which enables the company to provide omnichannel consumer services and blurs the border between its traditional and e-commerce offerings (see figure 3). Consumer curiosity about the smart store shopping experience has driven rapid growth in this e-commerce model over the past two years.

Figure 3
Smart store consumer experience

Precision traffic generation

10 Auto checkout
4 Digital shelf

Consumer incentives (for example, coupon, experience)

6 Smart beauty advisors tool
2 Vending machinery
5 Wi-Fi probe
1 Augmented or virtual reality experience
3 Product testing and customization
9 Interactive liquid crystal display
8 Facial recognition (entering store, payment)
7 Customer flow counter

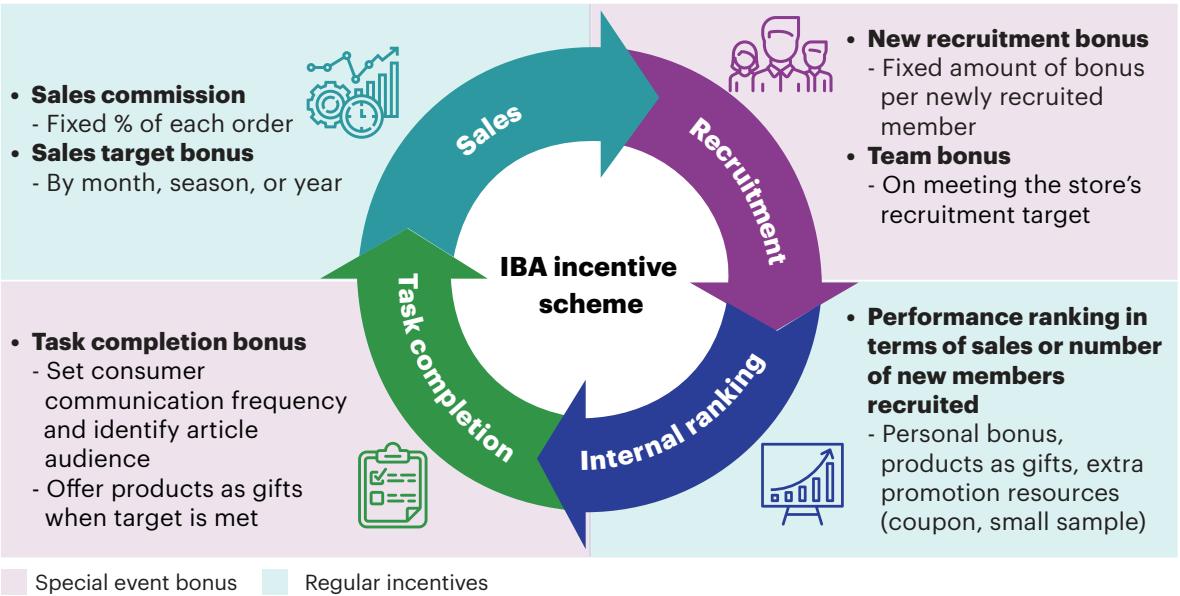**O2O campaign**

O2O sync

Note: O2O is online to offline.
Source: A.T. Kearney analysis

Smart stores are attractive to brands as they can collect more extensive consumer data than traditional brick-and-mortar stores. For example, when a consumer scans a Quick Response (QR) code, a staff member can access their store membership and historical data. This enables the staff member to provide more thoughtful service and can lead to improved sales. Interactive devices such as magic mirrors and skin testers in smart stores can provide consumers with more interesting and personalized shopping experiences. They can also help companies collect valuable consumer data (including pain points in the purchasing journey and physical attributes such as skin type) that the business can use to drive precision marketing and product development.

The DingTalk smart app developed by Alibaba and LQX is a good example of the kind of innovative tool that companies can now use in smart stores to facilitate direct communication between sales staff and consumers. The app revolves around a taskbar that is customized for each sales representative, integrating business priorities and individual consumers' personal characteristics. This enables sales staff to offer personalized services and meet their sales objectives. It can also help make promotional campaigns more cost-effective by allocating promotional coupons based on individual staff members' sales performance.

Setting up smart stores is most successful when the process is driven from the top down, with senior management empowering teams (such as new retail teams) to mobilize online and offline resources. Using a rational incentive system for sales representatives—and the entire sales team (online and offline)—is the key to eliminating online and offline conflicts and driving synergies. For instance, if a consumer interacts with a sales representative via the smart app, any online or offline consumption over a set period of time could count toward the staff's incentives or commission (see figure 4). In addition, companies can incorporate tasks such as customer acquisition and collecting consumer data into the incentive system, to encourage sales representatives to complete them. Of course, these incentives work best when companies keep a close eye on the flexibility and dynamics of the system.

Figure 4
Sample i-beauty advisor incentive schemes

- **Sales commission**
  - Fixed % of each order
- **Sales target bonus**
  - By month, season, or year

- **New recruitment bonus**
  - Fixed amount of bonus per newly recruited member
- **Team bonus**
  - On meeting the store's recruitment target

Sales **Recruitment**

IBA incentive scheme

Task completion **Internal ranking**

- **Task completion bonus**
  - Set consumer communication frequency and identify article audience
  - Offer products as gifts when target is met

- **Performance ranking in terms of sales or number of new members recruited**
  - Personal bonus, products as gifts, extra promotion resources (coupon, small sample)

Special event bonus   Regular incentives

Sources: Expert interview; A.T. Kearney analysis

E-commerce platforms are currently providing strong support to smart stores to nurture their growth, and companies are encouraged to adopt the various tools on offer (such as the smart app mentioned above, precision traffic generation, sales representative allowances, other data support) to help smart stores operate more efficiently. For instance, precision traffic generation based on demographic attributes combined with attractive promotional offers are proven to be highly effective in increasing sales. One successful example is a Chinese beauty company piloting smart stores. It received support from an e-commerce platform to provide low-cost precision advertising, which resulted in 5 percent of the reached audience visiting the store. The beauty company also increased its conversion rate to 60 percent—a dramatic improvement from the usual 15 percent.

The smart store is still a relatively new concept. When it comes to operational best practices, processes are still evolving. Platforms and companies need to work together to overcome pain points and challenges. For instance, some smart hardware technologies are immature, which can make it difficult for companies to provide the perfect user experience. If such issues cannot be addressed, consumers may well lose interest. At the same time, companies need to have ready access to consumer data—a vital bargaining chip in the effort to gain support from online sales platforms. Leading consumer goods companies will need to strike a balance between protecting their own consumer database while sharing sufficient data with online sales platforms. Some brands are adopting a distributor model for operating smart stores, while others are opening counters in department stores (where the cashier is often centralized). All these variations and complications may make it difficult to balance interests among all participants—including brands, distributors, department stores, and sales platforms.

2. Explore new retail consumer touchpoints such as automatic sampling or vending machines.

The automatic sampling or vending machine is a new retail touchpoint that can offer customers more efficient and cost-effective services than what is available in traditional stores. This is ideal for companies with fewer stores that want to expand their offline touchpoints quickly. The best results come from placing eye-catching machines in cities, business districts, communities, and campus environments that are frequently visited by a brand's core consumers, increasing targeted brand exposure and product trials. The greatest benefit of all is how this enables companies to capture consumer data—including identity, contact information, attributes, and preferences—and then use it for subsequent precision marketing. For maximum impact, companies should aim to deploy vending machines during major shopping festivals such as 11.11, Super Brand Day, and 6.18.

Companies need to take a data-driven approach when analyzing ideal locations for vending machines that will help increase traffic and conversion rates. Because vending machines can be used in many different locations and to showcase a wide range of commodities, they are a relatively flexible and mobile resource. That also makes any risks more manageable.
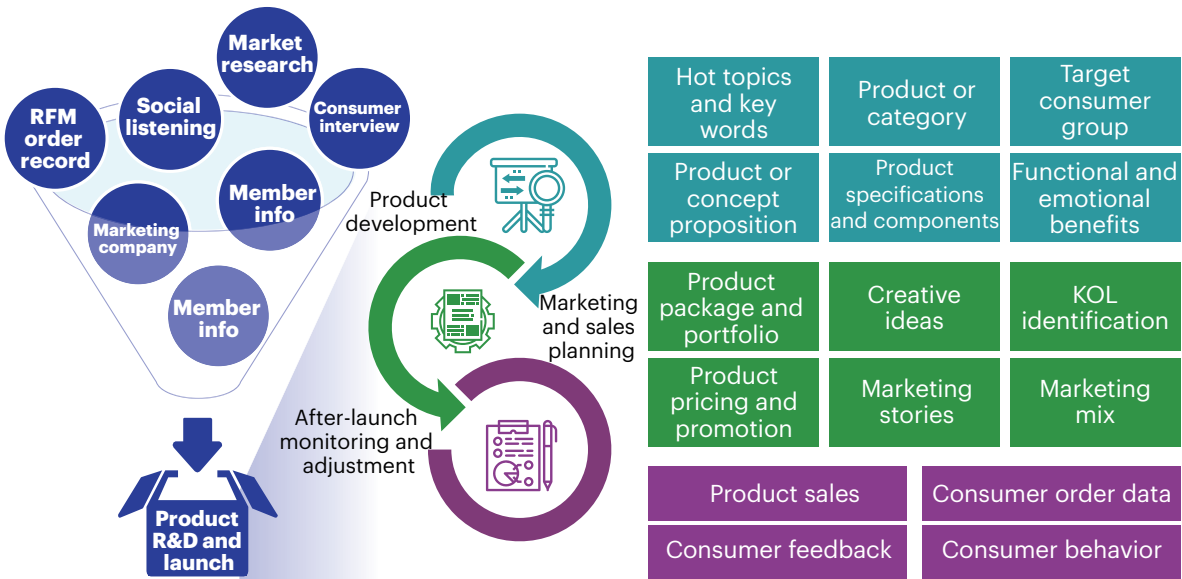
3. Deploy targeted C2B research and development (R&D) and new product launches (NPLs).

Traditional product development often analyzes consumer preferences through sampling surveys or focus group discussions, which can be time-consuming and result in incomplete data. In this era of big data, companies can combine the data they collect with data harvested by third-party e-commerce platforms and social media platforms. This reduces research time, so companies can identify target consumers and predict their purchasing behaviors more precisely. It also helps bring about more effective C2B R&D and more targeted NPLs.

However, big data doesn't just promise insights into what products to develop. It also sheds light on each step in the product development process—from concepts and ingredients to packaging, capacity, price, and selling points.

As consumers demand increasingly personalized purchasing experiences and products, companies that use big data and intelligent technologies to inform NPLs can change the game (see figure 5 on page 7). They can micro-segment more precisely and cost-effectively, develop new products that better meet consumers' personalized needs and expectations, and get a clearer picture of local consumers. Such insights provide a strong foundation for timely, cost-effective localized R&D and NPLs.

Figure 5
Data-enabled C2B product R&D and NPL

Hot topics and key words	Product or category	Target consumer group
Product or concept proposition	Product specifications and components	Functional and emotional benefits
Product package and portfolio	Creative ideas	KOL identification
Product pricing and promotion	Marketing stories	Marketing mix
Product sales		Consumer order data
Consumer feedback		Consumer behavior

Notes: C2B is consumer-to business. R&D is research and development. NPL is new product launch.
RFM is recency, frequency, monetary. KOL is key opinion leader.
Sources: Expert interview; A.T. Kearney analysis

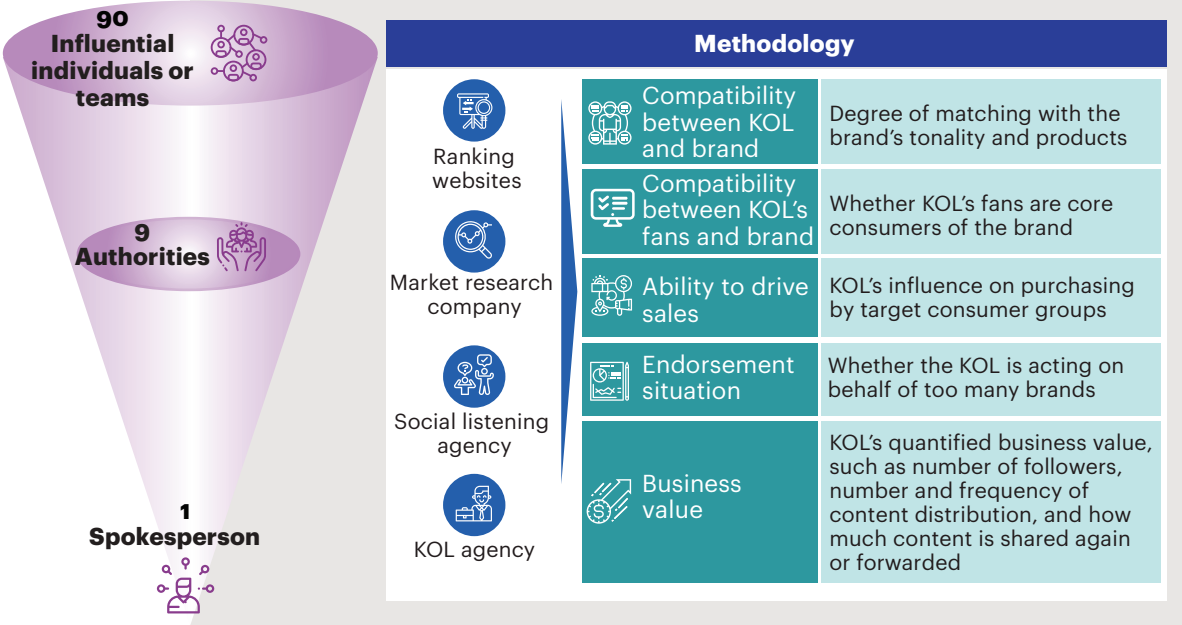## 4. Elevate the quality of digital content marketing and select KOLs in line with local trends.

When it comes to driving online traffic, many companies are harnessing the power and precision of content marketing. By pitching truly relevant and useful content that helps customers solve their issues, content marketing can help attract and retain a clearly defined audience—even in a saturated marketplace. Content should be innovative so it appeals to target consumers and multiplies the brand's influence. Companies should deliver a consistent message across all touchpoints, including print, digital, and even product packaging. To develop targeted, innovative, and consistent content, companies need to understand and predict market trends and consumer behavior—by keeping up with what's happening in society through "social listening"—and then translate these trends into targeted, appealing, and influential content.

Once targeted, appealing, and influential content is in place, the next step is to deploy suitable KOLs to help communicate it (see figure 6 on page 8). Enterprises need to select KOLs who:

1. Match the brand's tone of voice

2. Have a substantial number of fans who are among the brand's core consumer segments

3. Can influence their fans' purchasing decisions

4. Have a manageable number of endorsements, so the effect is not diluted by their endorsements of other brands

5. Have proven commercial value based on historical data analysis (factors such as reach and interactivity)

In addition to selecting individual KOLs, companies may consider using KOL groups to expand their reach to core consumers and maximize benefits. Companies also need to set appropriate key performance indicators (KPIs) to ensure scientific tracking of KOLs' performance and make timely adjustments when needed.

Figure 6
How to systematically select the right KOLs

	Methodology	
Ranking websites	Compatibility between KOL and brand	Degree of matching with the brand's tonality and products
Market research company	Compatibility between KOL's fans and brand	Whether KOL's fans are core consumers of the brand
	Ability to drive sales	KOL's influence on purchasing by target consumer groups
Social listening agency	Endorsement situation	Whether the KOL is acting on behalf of too many brands
KOL agency	Business value	KOL's quantified business value, such as number of followers, number and frequency of content distribution, and how much content is shared again or forwarded

The funnel shows:
90 Influential individuals or teams → 9 Authorities → 1 Spokesperson

Note: KOL is key opinion leader.
Source: A.T. Kearney analysis

Businesses often rely on the experience and intuition of internal marketing teams or external marketing agencies when it comes to getting content marketing and fan-based marketing right. However, with data analysis it is possible to capitalize on more scientific decision-making techniques—a vital element of any business' digital capability. Many professional agencies are better at analyzing market trends and have a sharper market sense than consumer goods companies. However, companies that rely on an agency's skills to help implement digital marketing need to lead the overall direction of these campaigns. By controlling the digital marketing strategy, a company can ensure that its implementation is in line with any strategic objectives and positioning.

The Basic Elements of Digital Transformation

1. Clearly define use scenarios and the purposes of consumer data analysis, and build related capabilities internally and externally.

In the age of big data, it is crucial that companies have ready access to a continuous stream of high-quality consumer data that is integrated, analyzable, and usable (see figure 7 on page 9).

Data-driven insights that help companies understand consumers' attributes, behaviors, and preferences are useful for many scenarios, including shaping business strategies, improving customer acquisition, improving retention and loyalty, and increasing average spend per order. Such insights are also essential for successful product innovation and realizing boundaryless marketing, among other wins. Companies typically have different scenario priorities during different stages of development. Those that can successfully capture or acquire data and analyze it to generate useful insights are already halfway to success.

Figure 7
Data analytics framework in the digital era
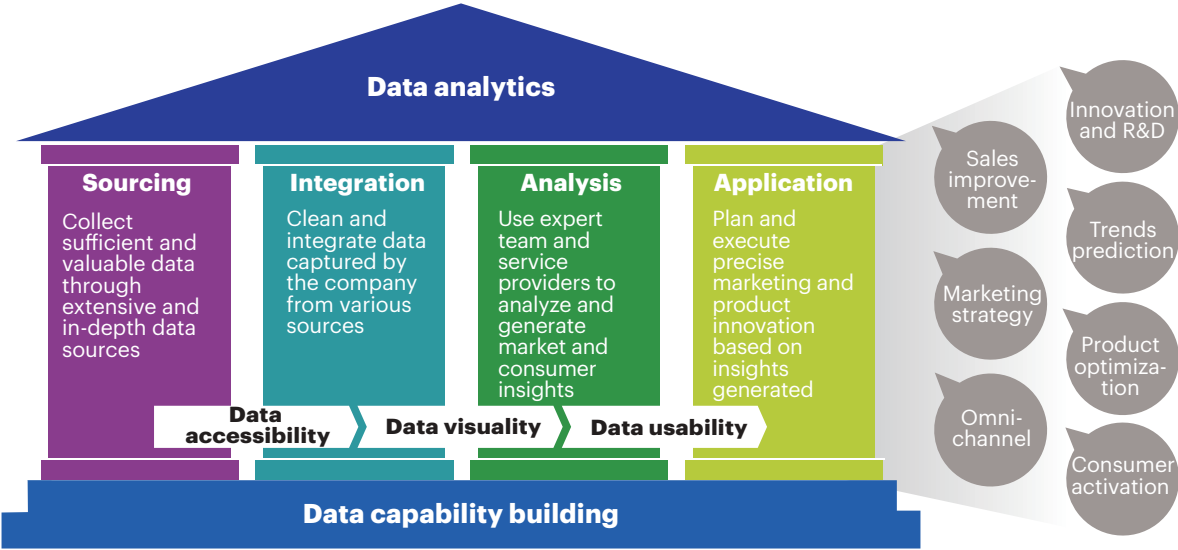
Note: R&D is research and development.
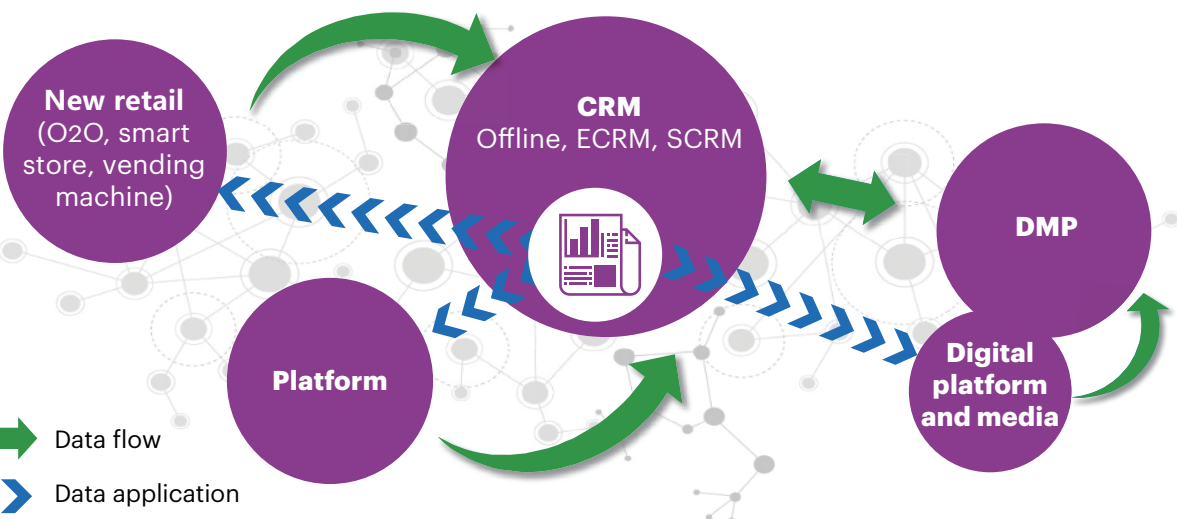Source: A.T. Kearney analysis

For companies that need to build skills in acquiring, integrating, and analyzing data, seeking external help from DMPs and CRM platforms can be useful (see figure 8 on page 10). DMP operators can help companies reach more potential customers and acquire new ones, which is particularly valuable for companies that lack existing consumer data resources. CRM operators can also help companies improve relationships with existing consumers and maximize value captured from each consumer. The use of CRM platforms is already relatively widespread in the beauty and maternal and infant industries. However, leading companies are now focusing on extending offline CRM capabilities to online ones (ECRMs), developing social CRMs (SCRMs), and creating synergies between CRM and DMP systems. This approach is allowing companies to more effectively integrate consumer data and offer consumers a more seamless purchasing journey.

2. Establish a "digital-first" organization structure

Traditional consumer goods companies that previously focused—or still focus—on brick-and-mortar retail often have a relatively large offline team. Their e-commerce and offline teams may work independently, with little crossover or collaboration. This siloed approach can lead to inconsistent pricing and resource allocation between the teams, which can negatively influence offline sales. Even companies that avoid these channel conflicts may have poor cooperation

across channels, resulting in missed opportunities and a potentially lower contribution from the online business. On top of all this is the high chance of an inconsistent consumer experience across channels. An offline-focused, centralized organization structure also prevents teams from acting with agility—a problem particularly common among multinational corporations.

Figure 8
CRM, DMP, and data synchronization

Notes: CRM is customer relationship management. DMP is data management platform. O2O is online to offline.
ECRM is electronic customer relationship management. SCRM is social customer relationship management.
Source: A.T. Kearney analysis

To overcome such challenges, leading companies (especially those with a significant contribution from the online business) are adopting a "digital first" organizational structure, and integrating online and offline business units (see figure 9 on page 11). An effective way to bring these teams closer together is to introduce dual performance assessment programs and other incentives to align interests of the online and offline businesses. In addition, some leading beauty companies have appointed a chief digital officer to help balance and optimize the performance of offline and e-commerce teams, and facilitate cross-functional synergies as the business digitalizes.

3. Establish an effective digital ecosystem partnership strategy

In a digital era characterized by rapid and systemic change in consumer demands and markets, companies wanting to facilitate a successful digital transformation must capitalize on the support offered by professional service providers. Seeking the best external help requires companies to plan carefully around digital operating models, objectively assess existing capabilities, and then find the most appropriate external partners to help build a competitive advantage.

Taking e-commerce operations as an example, most companies are now using Tmall Partner Agencies (TPs) as their partners in operating the online business. Although TPs remain strong in the e-commerce field and are trying to expand their own digital capabilities, they are still weak when it comes to high-quality data analysis, new retail, and other value-added services. Instead, companies should turn to high-quality specialized third parties for assistance with specific digital

Figure 9
Common e-commerce organizational structures

|	Brand-driven	Mixed		E-commerce-driven
Organization	Business unit → Brand 1, Brand 2, Brand 3; Brand 2 → E-commerce, Traditional channel	Business unit → E-commerce, Brand 1, Brand 2; Brand 1 → E-commerce, Traditional channel	Business unit → E-commerce, Brand 1, Brand 2; E-commerce rep (focused on marketing) rather than a team	Business unit → E-commerce, Brand 1, Brand 2; Brand 1 → E-commerce, Traditional channel
Pros	• Easier to maintain individual brand image and high-quality brand marketing management	• Brands are allowed to plan and execute own e-commerce strategies	• Brands are allowed to plan own e-commerce strategies	• Centralized and effective optimization of corporate resources; enhanced bargaining power against platforms
Cons	• Limited economies of scale and synergies • Limited bargaining power against platforms	• Possible conflicts and inefficiency from unclear roles and responsibilities • Potential resource overlap	• Possible conflicts and inefficiency from unclear roles and responsibilities	• Risk of segregation from brands

Source: A.T. Kearney analysis

processes such as setting up smart stores; acquiring, integrating, and analyzing data; running digital marketing, social listening, and content marketing campaigns; and selecting KOLs.

Of course, merely selecting the right third-party collaborator is far from enough. Building a strong partnership model and enabling effective collaboration between all parties are crucial elements for any company that wishes to operate successfully within a digital ecosystem (see figure 10 on page 12). Choosing a wide range of third-party collaborators can ensure that companies capture market opportunities more quickly. However, as companies build capabilities, they must consider the benefits of reducing their dependence on collaborators for core capabilities, and shifting their focus from outsourcing to insourcing.

Conclusion

The impact of online and digital businesses on the business landscape for consumer goods companies in China is all-encompassing and unavoidable. As a result, these companies need to consider digital transformation as a matter of urgency if they are to remain relevant to their customers. This process starts with abandoning old mindsets and defining a forward-looking digital transformation agenda. For most companies, the prospect of digitalization can be daunting. Legacy, traditional operating models can impede a company's ability to adapt, leaving it without the necessary experience, resources, and core business strengths to readily succeed in the digital era. Success starts with companies building internal capabilities and making full use of external professional service providers to grow and thrive in the digital age.

Figure 10
Partners and roles in the digital ecosystem
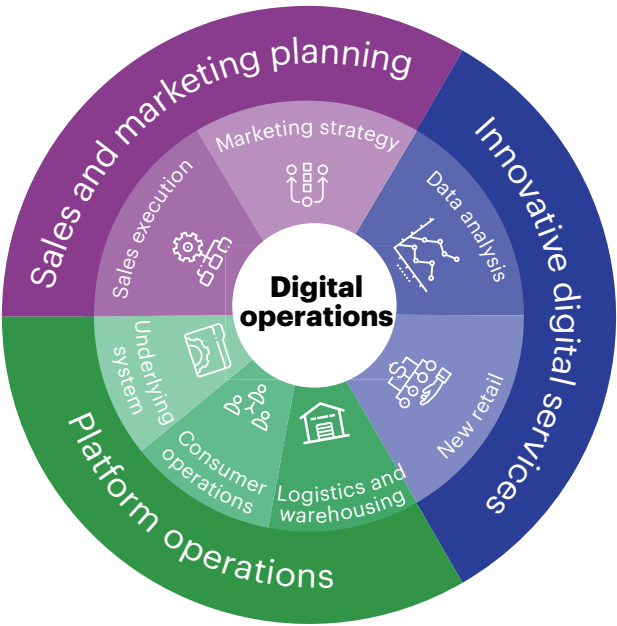
	TP	CRM/DMP operator	Data analysis company	Digital marketing company	Social media/ listening agencies	New retail consult ancy
Platform operation	✓					
Platform marketing (for example, in-platform media solutions, traffic generation)	✓	✓	✓	✓		
Digital marketing, such as content marketing, KOL development				✓	✓	
Online member management (for example, ECRM)	✓	✓	✓			
Platform data analysis (for example, databank)	✓	✓	✓			
New retail capabilities (for example, smart store setup, O2O campaign)				✓		✓

✓ Primary service areas   ✓ Secondary service areas

Notes: TP is Tmall Partner. CRM is customer relationship management. DMP is data management platform.
KOL is key opinion leader. ECRM is electronic customer relationship management. O2O is online to offline.
Source: A.T. Kearney analysis

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A.T. Kearney's China Competitiveness Institute (CCI) is a branch of the GBPC committed to fulfilling GBPC's mission in China market. The CCI's mandate is to provide insight about the forces of growth in China's economy, the country's changing consumer and business environment, and the opportunities and challenges that Chinese business leaders, multinational companies, and government entities are facing as they strive to sustain and expand their success in the next phase of China's development. CCI produces white papers and holds summits related to the above focused topics.

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China Competitiveness Institute

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