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The 3T's of Digital Transformation:

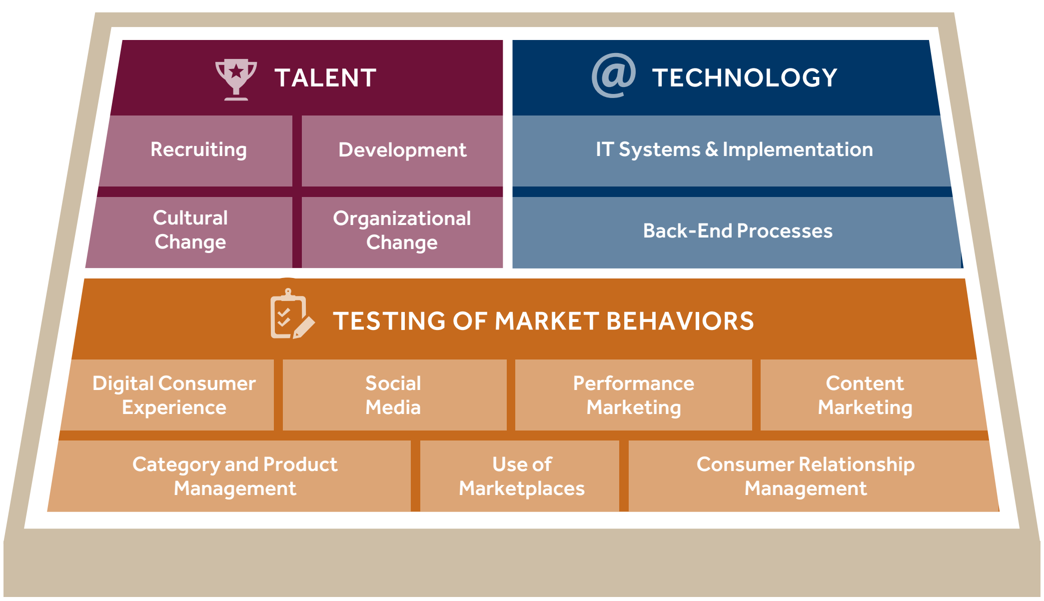
A Framework for Digital Growth of International Consumer Goods Companies

By Dr. Axel Steuernagel

Value creation in international consumer goods companies is strongly driven by a convincing long-term growth story. Increasingly, this story is anchored in digital transformation.

Many CEOs are hesitant to embark on the digital transformation journey as it demands short-term investment and consumes management attention, both of which negatively impact current profits. But digital transformation is a "must" in today's economy. Markets and customers are changing. The way consumers buy is changing. As product research and transactions increasingly move into the digital space, it makes a robust digital presence essential to a company's long-term growth and market-share position.

FIGURE 1: Critical Elements for Creating Digital Growth



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Done right, a digital growth strategy can strengthen a company's long-term strategic position and increase its profit base within three years. Done poorly or not at all, this gap can seriously endanger the future of a consumer goods producer. The question for international consumer goods companies is therefore not if to transform but *how*. This article introduces a framework for the "how": the 3 T's of digital transformation *(fig. 1)*. Leaders who are preparing to compete in the global digital market must consider talent, technology and testing of market levers.

Talent

In the digital world, success lies in executional excellence. That's why PE firms and venture capitalists look for the right teams as a first step after deciding on their investments. It's also why many traditional companies have struggled to undergo digital change—they lack the right talent to execute it.

The "talent" umbrella encompasses recruiting, talent development, and cultural and organizational change. While key positions will likely need to be recruited externally and guidance from outside experts is crucial to success, the major challenge here is internal development. From top to bottom, everyone in the organization must be bought in and on board with the digital transformation effort as the change impacts every aspect of an organization: sales, marketing, customer care teams, supply chain management, country managers and physical shops all have roles to play in facilitating the change and evolving their day-to-day operation.

One of the challenges for CEOs in all this is creating an agile organization. Agility requires flexibility in order to react quickly to new challenges, but most organizations have been built over time on very traditional structures and rules that make change a slow process. CEOs must create a new organizational mindset without jeopardizing what's working today and losing focus on the current business. They must attract new digital talent and seamlessly plug them into the existing organization while allowing them the appropriate freedoms to implement the transformation. In larger organizations especially, leaders must create buy-in throughout the company, championed from the C-suite. It's a tall order that takes careful planning and meticulous oversight.

Technology

Choosing the right IT systems is key to digital success. While a detailed discussion of all the technical considerations—which include e-commerce systems, back-end systems such as CRM and ERP, production information management and much more—could fill a book, there are four overarching issues that are relevant for all consumer goods producers. These issues impact all aspects of technology decision-making and should be central considerations to the technology piece of a digital initiative:

Size of project budget. Since a consumer goods company's e-commerce operations will be smaller than that of a comparable omnichannel retailer, it is beneficial to choose a software provider specializing in mid- size projects. Companies can also benefit, both in cost and ease of transition, by taking a step-wise approach to replacing legacy systems with new technologies. Keep in mind that many IT projects overrun their budgets; it is a good idea to set aside "hidden" funds to cover the unanticipated costs.

Internal IT team. An inexperienced IT team can significantly undermine digital success. Ideally, those who are driving technology decision-making and implementation should have previous experience with similar transformative efforts. If this expertise is not in house and cannot be recruited externally, seek input from high-performing GenY employees; this group has grown up with digital and usually has a good perspective on what does and doesn't work.

Commercial team buy-in. It is crucial to integrate the existing commercial teams in the development of any new technology. They know the customers best; their input should therefore be sought early in discussions about any customer-facing technology solutions. Companies that don't include salespeople in decision- making about the features, functionalities and design of a site risk creating a solution that is targeted to the wrong audience. The most successful companies are the ones who are able to integrate "old" and "new" in a seamless way. It is like a successful post-merger-integration effort, merging two cultures in sensible way.

Type of external support. Typically, companies work with an implementation agency to select standard software that the agency then adapts to the company's unique requirements. It's important to choose an agency that is big enough to provide the right resources but not so big that your company is a low priority among its clients. It is also important that external partners deeply understand the traditional organization in addition to bringing in-depth digital knowledge. Any external support must thoroughly grasp the commercial issues, customer buying values, the buying journey and so on in order to assist a company most effectively through the digital transformation process.

Testing of Digital Market Levers

A robust digital Go-to-Market model incorporates seven levers. Their order is relative to the consumer journey, which includes developing awareness, assuring consideration, triggering a purchase and creating retention. The digital consumer experience crosses all these steps and is therefore the starting point.

1. **Digital consumer experience.** Today's consumers can compare products, brands and prices with very little effort. In such an environment, consumer experience is key to a brand's success. Obvious factors such as website design, product presentation and digital selection/planning tools are critical in keeping a consumer on a site and moving them to a sale. But just

as important are less obvious elements like chatbots, which offer 24/7 consumer support and guidance; a frustration-free onsite journey that, i.e. limits the number of steps from site entry to purchase; and omnichannel experience. The latter is all about consistency of experience across channels. Companies such as Burberry and Tommy Hilfiger are doing this through "stores of the future" in which entering a store is like entering a website.

2. **Social media.** In the past, brand-building was done via TV, print, PR or a company's own retail stores. Today, those channels tend to be much less impactful than social media, which influences consumers at a grass-roots level. One of the most powerful ways companies can build their brands on social media is through the use of brand ambassadors—celebrities who embody the brand and are popular among the target consumer group—and so-called "micro-influencers," who are individuals with high social media activity and a certain number of followers in the right target group. Both these approaches exploit the digital environment's viral opportunities.
3. **Performance marketing.** Performance marketing includes all marketing actions which can be quantified. It is usually associated with search engine marketing (SEM)—a notoriously high-cost method of reaching consumers. While companies often balk at these costs—often to the point of wanting to avoid selling directly B2C—the best approach is to use performance marketing in an efficient way by improving cost-per-clicks and conversion rates, considering customer lifetime value (rather than the cost of acquisition at a customer's first purchase), using a mix of channels, and thinking about creating leads rather than sales.
4. **Content marketing.** During the last the few years, companies have come to recognize the importance of creating content around a brand. This is particularly true for non-standard products such as luxury fashion or lifestyle products where emotional benefits have to be conveyed to the consumers, or technical products where the rational benefits must be communicated. Consumer goods companies operating successfully in the digital space often dedicate significant resources to creating various types of content, delivered across channels. Take Vorwerk, a German company that makes the popular Thermomix cooking device. Vorwerk's company site offers professional explanations of its products, a separate recipe site gives consumers about 70,000 recipes, and an app called Cookidoo offers "guided cooking" recipes which can be transferred to the display of a Thermomix via WiFi. In addition to this multi-pronged approach, Vorwerk uses famous cooks as influencers. It is important to point out that this type of coordinated digital effort is rooted in the existing commercial team's knowledge of customer journeys and buying preferences—a striking example of "old" and "new" coming together successfully to drive increased business.
5. **Category and product management.** Category management refers to a company's grouping of similar or related products into categories which are managed by dedicated category or product managers. For consumer goods companies, digital transformation impacts category management in three ways. First, product innovation must involve end consumers from the very earliest stages, incorporating their feedback from initial sketch through every phase of

development. This innovation process is deeply entwined with the digital transformation of consumer goods producers; the more access a producer has to end consumers, the easier it is to innovate.

Second, companies must address assortment development as the assortment offered in the digital space is usually not consistent with the one offered to B2B partners. And finally, pricing is powerfully impacted by digital transformation. Dynamic or adaptive pricing—in which prices are adapted instantly based on competitor pricing, consumer demand and stock availability—is widespread in the digital world. Changes are usually based on machine learning.

6. **Use of marketplaces.** Marketplaces can be a powerful conduit for entry into B2C selling, particularly for mid-priced brands. While Amazon is the biggest marketplace, it is by no means the only one. Many countries have their own local marketplaces, including T-Mall (Alibaba) and JD in China, Mall.cz in the Czech Republic, Cdon.se in Sweden and Bol.nl in the Netherlands. In addition to these generalist marketplaces, there are also specialist marketplaces that focus on specific categories, such as Germany's Otto and Zalando for fashion. However, working with marketplaces requires a lot of attention to product selection, pricing and the use of specific marketing mechanisms. Premium and luxury brands should be especially careful to ensure they do not damage their brand through poor choices of selling channels. All brands must avoid conflict with other traditional and digital channels.
7. **Consumer relationship management.** Consumer relationship management, which encompasses the collection and leveraging of consumer data, is at the core of digital success. It works with the same kinds of tools as customer relationship management (CRM), but is directed at the end consumer. There are many channels through which companies can collect and leverage consumer data, including personalized email offers, social CRM, apps, VIP clubs and personalization of websites. Managed well, these touchpoints enable companies to stay integrated into their loyal consumers' lives. Nike, for instance, supports personal training via a Nike training app, offers regular information on scarce limited models through its Sneakers App and provides advantages such as free delivery with NikePlus membership. The best CRM-based models are self-nourishing: When offers are personalized and on-target, consumers tend to be more active and, through that increased activity, leave more data.

Conclusion

Taken on the whole, digital transformation can appear overwhelming and cause business leaders to wonder if the investment of time and resources is worth it. The answer is a resounding yes. The future of purchasing is digital and companies that don't successfully make the move into this environment risk becoming obsolete.

While the transformation process is complex, it is not impossible. There are many powerful examples of companies that have transformed well. One is Adidas. Between 2015 and 2019, its share price close to quadrupled. This correlates with growth and, in particular, digital growth:

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from 2016 to 2017, the company grew its digital revenues by about 60% while overall company growth was around 15%. Another example is Gucci, which grew 42% in 2017, based on a rejuvenation of its brand and a successful social media strategy.

These are two prominent examples but there are countless others. In all industries, there are early movers, quick followers and companies which are slow to act who ultimately get left behind. You do not have to be an early mover, but it´s important to follow quickly once the competition starts taking a digital approach—otherwise you risk being left behind.

About the Author

Dr. Axel Steuernagel is a Principal at Blue Ridge Partners and a Munich-based professor of management specializing in digital transformation. He has helped many international consumer goods companies move successfully into the digital world.

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