



How can Consumer Products Multinationals sustain their growth in China?

China Growth 2.0 series

In our recent engagements with consumer products multinationals in China, we observed that many of them are lacking a clearly defined strategy on how to sustain growth in the fast-changing and digitally disruptive Chinese market. In this first article of the Growth 2.0 series, we examine a recent engagement where a premium global footwear brand from Germany wanted to establish a differentiated presence and ambitious growth within Asia Pacific, and especially China. From this case, we will explore what multinational consumer products companies can learn from it.

Newly appointed Asia Pacific Regional CFO of FootwearCo, major global premium footwear brand, entered their company's tastefully renovated office in a business district of Hong Kong. Soon after his arrival, he was reminded of a meeting with the Regional CEO by his secretary to discuss the upcoming budget and annual plan for their brand portfolio in Asia Pacific. To prepare for the meeting, the CFO started browsing through the management

reports and historical financial records. Soon he realized that while FootwearCo enjoyed significant growth over two decades in APAC, in the recent five years it experienced flat growth in revenue and a declining trend in profits. New in his role, the regional CFO was committed to turnaround FootwearCo's performance and he intuitively knew that much of the success will come from boosting the performance in China. >

China Growth 2.0 is a series of articles that explores growth challenges of companies that are operating in China. With the help of real-life case studies, we will illustrate Monitor Deloitte's new methods of solving growth challenges using a fast paced, hypothesis driven, consumer centric approach that leverage digital and analytics capabilities to derive impactful and sustainable results.

For more details please get in touch with the Monitor Deloitte experts listed in the **Contacts** section.

During the meeting, the regional CEO explained to the new regional CFO that FootwearCo has been experiencing a host of challenges due to external factors such as changing consumer habits and evolving market landscape including strong growth of e-commerce; and internal gaps such as lack of clear go to market strategy for their key APAC markets, shallow presence in upcoming retail channels and unclear brand positioning. He added that overall footwear market in Asia Pacific is expected to grow at CAGR 4-5% during next five years and FootwearCo aspires to tap into the high growth segments such as sportswear, female and children footwear.

The regional CFO knew that FootwearCo's global headquarter had plans to further invest in APAC and that they needed a clearly defined strategy for China and APAC region. Being new in his role and with the increased understanding that more external perspective was required he briefed Monitor Deloitte's consumer business Partner about FootwearCo's growth challenges in Asia Pacific and asked to propose a way to solve them. ✓

During last three decades, many multinational companies have entered and invested in the Asia Pacific region and in particular in China, to capture the next wave of growth. While many of them succeeded during their initial years, sustaining their growth had become a significant challenge in the recent 5 years. Several reasons exist behind MNCs' failing to sustain their growth in the region in particular four key issues seem to be common among MNCs.

- **Lack of intimate customer insights** resulting in ambiguous brand positioning and gaps in product portfolio and service offerings.
- **Disjointed and outdated channel & go-to-market** approach that leads to conflicts within channel partners, insufficiently capturing the opportunity of e-commerce and modern retail, inconsistent customer experience, pricing conflicts, and loss of revenue and margin capturing opportunities.
- **Insufficient supply chain** that causes failure to meet demand, optimized inventory level, and addresses changing consumer needs with new products in an agile manner
- **Insufficient and scattered digital initiatives** that fails to sufficiently capture customer attention and traffic, service them effectively and produce optimal results.

Solving FootwearCo's growth challenges

The regional CFO asked Monitor Deloitte engagement team to conduct a fast diagnosis of FootwearCo's current situation on key dimensions including FootwearCo's customer focus, product portfolio, channel and digital presence, overall go-to-market structure and resultant financial performance. The team quickly realized that FootwearCo lacked region and country-specific strategy which led to channel conflicts, unhealthy relationships with distribution partners, strained supply chains, and inventory management problems. On the other hand, to FootwearCo's benefit, the brand was well-known among a broad set of consumers and it was able to maintain the premium image in key Asian markets.

Instead of relying on a traditional lengthy strategy development process, the engagement team decided to leverage Monitor Deloitte's "Strategy by Design" approach and engage FootwearCo's regional executive with an initial strategy planning workshop upfront. This allowed identifying potential growth strategies, and then detail out the strategy through deep-dive discussions. The engagement team applied Monitor Deloitte's "Strategic Choice Cascade" methodology to systematically map out FootwearCo's current strategy and to identify future strategic options.

The Strategic Choice Cascade is a proven approach to addressing strategy as a set of 5 inter-related questions.



Two weeks later, the engagement team invited the regional executive team to attend a full day immersive strategy lab. The strategy lab was carefully designed to uncover the core issues, identify root causes, explore a range of strategic options, weigh in benefits and shortcoming of each strategic option and seek leadership direction.

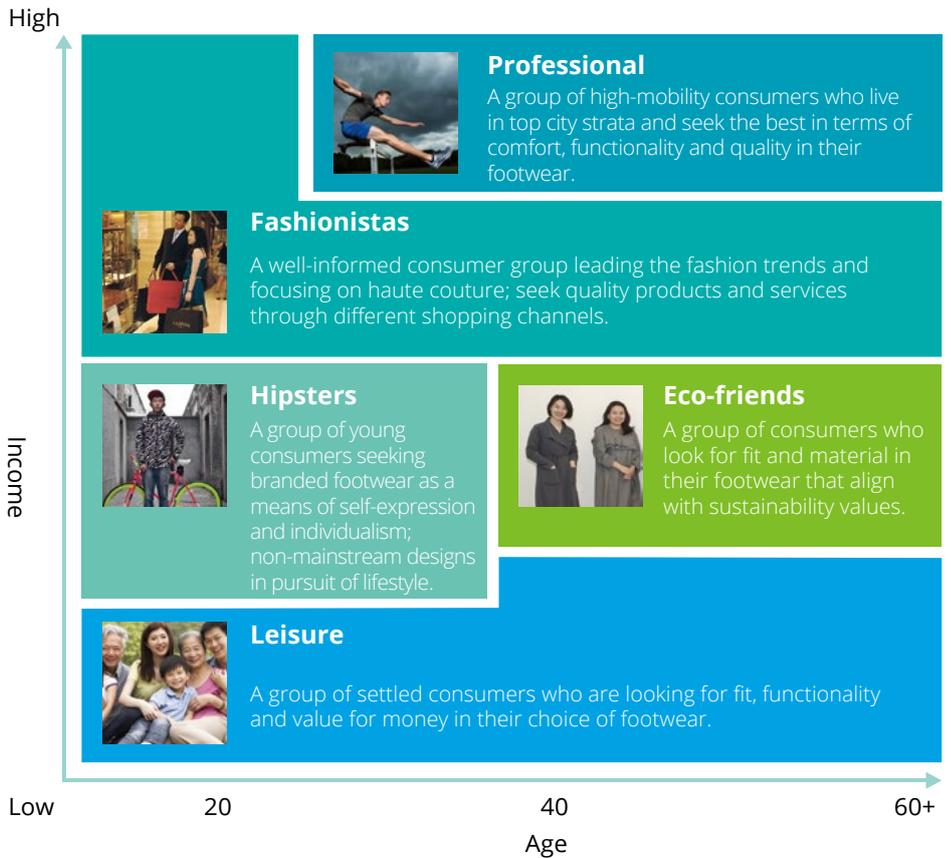
FootwearCo strategy lab began by helping the executives to articulate their vision for the company in the region and establish financial and non-financial goals for the upcoming 3-5 years. Following the visioning exercise, the executives prioritized their focus on China market based on the growth potential. Consequently, the team deliberated on **"Where will FootwearCo play?"** by studying customer segments and their attractiveness, feasible products and services, presence in geographies and channels (traditional and digital) and vertical stages. For example, eco-friends segments represents mid-senior well educated consumers in China who place high importance on sustainable material and long lasting products and are willing to spend extra money for a right product. FootwearCo could win in this segment by effectively communicating its eco-friendly material use, sustainable manufacturing practices and repair services that will lengthen the product life.

FootwearCo's regional executive team focused the latter half of the strategy lab on narrowing down the strategic options for the company in China and contemplating winning options across each dimension of a **Doblin Ten Types of Innovation** framework. They discussed the strengths of FootwearCo and competitive environment and identified unique core capabilities and differentiators to address the question of **"How FootwearCo will win?"** consumers in each chosen segment.

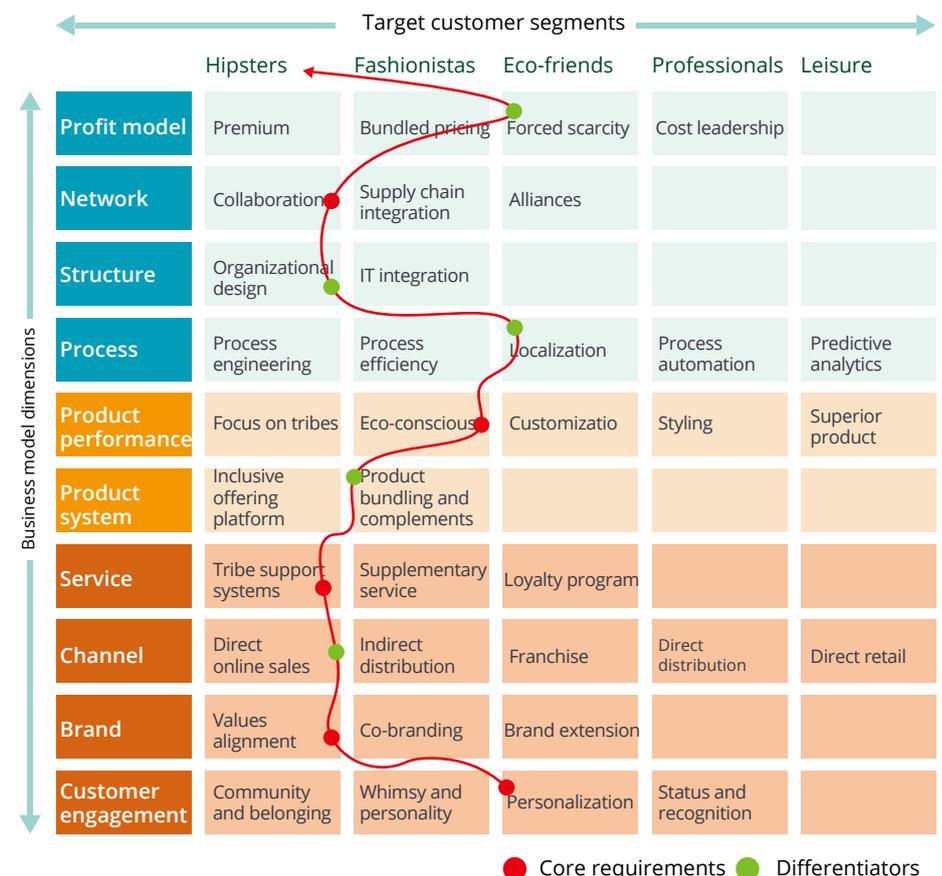
Following the strategy lab, the engagement team spent another four weeks working closely with the company's executive team to detail out the strategic choice and deep dive into each element of differentiation factor. Further, the engagement team identified capabilities and strategic initiatives and developed a detailed roadmap along with a financial model to review the benefits and expected costs.

Over the 6 weeks of engagement, the regional CEO and CFO were able to set a clear yet realistic vision and goals for their company in APAC. They developed a strategy canvas that answered the fundamental strategic questions including 'where to play?' and 'how to win?' in China and other key APAC markets. The team identified a set of coherent capabilities, foundational to advanced, that the company needed to establish in the upcoming year. Further, a detailed implementation roadmap was set up that served as a playbook for establishing core and differentiating capabilities, installing and mobilizing the team to achieve the strategic goals.

Meaningful customer segmentation is key to understand behavior and win over the target customers in China



Doblin Ten Types of Innovation Framework provide a comprehensive structure to define core capabilities and unique differentiators.



Learnings for multinational consumer products companies in China



Based on this case and our other recent engagements, it is evident that consumer products multinationals operating in China need to review their strategies and operational realities. Commonly have seen the following key themes emerging, some are basic, some are advanced but all are essential to realizing success for MNCs.

Lesson 1: Install a culture of adaption to tune in with rapidly changing market environments in China.

Thanks to the proliferation of the internet and mobile commerce in recent years, Chinese consumers have become more omnishoppers than ever. On an average Chinese consumer switches between 2-4 times between online and offline channel before actual purchase. Traditionally, the consumer products companies that relied on brick-and-mortar channels need to rapidly establish a meaningful presence over online channels and quickly move towards the omnichannel model. Consumer demand for products peaks during specific shopping holidays such as Chinese New Year, Singles' day (光棍节 Guāng gùn Jié), Children's day, and Autumn Moon Festival. Companies are required to plan well in advance for the spikes in the demand to exploit the opportunity.

Lesson 2: Make strategic choices. Be clear about where to play and where not to.

Focusing on entire market and targeting every opportunity is not a strategy. Prioritize a view. Making explicit and purposeful choice of what to do and what not to do sits at the core of strategy. Consumer products companies that are looking for sustainable winning position in China would need to be explicit about their target customer segments, products and geographical segment, channels, and vertical stages.

Lesson 3: Don't assume that western branding and positioning will work as-is in China.

Foreign brands may not be perceived in the same way in China as that they are in the markets elsewhere. Companies need to assess the market context and carefully define and communicate brand positioning to Chinese consumers. Simple topics such as choosing a Chinese name for a brand could have cultural implications and long-lasting impact on the brand positioning. Consumer Products companies need to clearly understand perception of the brand in the eyes of Chinese consumers, profiling them into meaningful segments, and adjusting product portfolio to targeted segments.

Lesson 4: Choose channel partners carefully. Cultivate long terms and trustworthy relationships.

Choose your distribution channel players based on their regional focus, their strengths, management styles, openness to create customer access for you, and willingness invest (financially and emotionally) in growing your brand in the market. Equally, companies need to review their incentive systems for their distribution partners to share the success. Traditional distributor relationships where distributors did everything are becoming obsolete. China market demands consumer product companies to play a more active role in the ecosystem. Consumer products companies need to work with their local distribution partners to develop attractive opportunities for both sides. They need to demonstrate commitment to support their distribution partners on areas such as branding and product strategy, pricing strategy, consumer insights, marketing and communication, ecosystem development, and support infrastructure.

Conclusion

Multinational consumer products brands are drawn to Asia Pacific markets due to explosive growth in the region in recent years. These market are attractive, they require carefully crafted approaches and patience to be successful and sustain it over a long period. Especially in China, with ever changing consumer preferences and growing competition from local brands, multinational consumer product companies need to sharpen their strategies and meticulously implement those to be successful and sustain in the market. Monitor Deloitte's 'playing to win' methodology helps companies to assess multinational consumer product companies to define their market-specific strategic choices and deploy them in a systematic way.

"Strategy is about making choices, trade-offs; it's about deliberately choosing to be different."

Prof. Michael Porter
Founder of Monitor Group, now Monitor Deloitte

Contacts

Shanghai

Randy Jagt

Partner
Consumer Products and Retail
Strategy & Operations, Deloitte China

Phone: +86 21 2316 6766
Email: randyjagt@deloitte.com.cn

Shanghai

Jiaming Li

Partner
Monitor Deloitte
Strategy & Operations, Deloitte China

Phone: +86 21 2316 6323
Email: jiamli@deloitte.com.cn

Hong Kong

Jez Heath

Partner
Operations Transformation
Strategy & Operations, Deloitte China

Phone: +852 2238 7864
Email: jerheath@deloitte.com.hk

Hong Kong

Vish Desai

Associate Director
Monitor Deloitte
Strategy & Operations, Deloitte China

Phone: +852 6075 2389
Email: vishdesai@deloitte.com.hk

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