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The Hindu Business Line - WeekendLife
National - Dec 20, 2013

Page No: 5
Page Name: n.a.
Size: 812 sq. cm
AVE: INR 373,586

Type: Supplement
Language: English
Circulation: 151,265
Frequency: Weekly

News monitored for: Accenture

How to take the digital revolutionary road

Technology is helping blur boundaries between consumers, stores and consumer brands. But dealing with it is not simply a technical issue.

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From Nairobi to Nanjing to New York, consumers across the globe have clearly embraced the digital world. They have rapidly adapted to shopping for groceries during the daily commute; downloading books, music or films on the move; or tweeting, pinning and sharing our purchasing decisions on social networks. This expectation of 'anytime, anywhere' consumption has grown exponentially, bolstered by the rise of a mobile, social, cloud-based era of computing.

The pace of change has surpassed all prior shifts in the nature of an industry: it took just seven years from the launch of the Internet in the US for it to become a mass medium, faster than any prior innovation. Today, digital crosses all boundaries: age, geography and stage of economic development. Kenya, for example, leads the world in mobile banking uptake and Korea has the world's fastest broadband network, while six in ten Japanese consumers go online with their phones today.

Usually adept at exploiting new trends, consumer-facing brands have struggled to keep pace or adapt strategically to the new digital landscape. Of course, there has been much experimentation with digital, from both consumer goods companies and, especially, retailers. Supermarket giant Tesco has created a virtual store in Korea's subway system where you shop by scanning QR codes. Brazil's Magazine Luiza has invited consumers to create social media 'stores' on Facebook, with the company providing fulfillment and paying 'storeowners' a commission.

But most consumer brands' experiments so far are tactical rather than strategic responses to the challenge of the digital revolution: digital add-ons to an existing, analogue business. But if they are going to enjoy sustained growth in the future, they need to take a far more holistic approach that places the consumer at the centre.

This is doubly important when combined with the impact of globalisation. Consumers in developed markets, where companies have traditionally focused, are aging and looking to live healthier lives, but they are also cash-strapped, due to the stagnant economy, and seeking value. At the same time, emerging markets are growing. By 2015, there will be at least one billion middle class emerging market consumers. An estimated 15 million new retail outlets would be required to reach these new consumers, which is a vast undertaking even before realising that many of these new consumers will likely require very competitive prices. Quite simply, leveraging digital technology will be the only economically viable way to compete.

Companies will have to integrate matters and mechanisms throughout their organisations as consumers demand a smooth shopping experience regardless of where and when they shop. (Above) A zoomed image of a computer monitor shows a website selling button clipart for online shops._ REUTERS

PRESSING NEED

Over the last two decades, consumer brands have skilfully aligned their businesses to a changing world. This has led them on a journey from their predominantly local roots, to boldly reshape their operating models and become, first, regional, and then global, giants. Their vision has been rewarded – every stage of the journey has been accompanied by increased earnings and profitability.

But many firms are likely to find that if they do not embrace an increasingly digital world, their margins and growth will be challenged. It is time for them to radically reshape their existing business models and strategies for the digital world. Importantly, this isn't about some kind of digital façade, it's a far more transformational change.

We have identified six key implications resulting from this shift:

Geography as the principal organisational construct will become redundant. For companies, structuring their business operations geographically made sense in a world of high transport and communications costs and limited globalisation. In today's era, companies will need to structure their business around types of consumers and route to market to be successful. This might include groupings of culturally similar markets – so Australia will be grouped with the UK, rather than nearby Indonesia, for example. More radically, they should structure themselves and their propositions around distinct consumer groups, given the similarities between particular consumer segments, such as working mothers, the recently retired, or urban working women in their twenties. Also, even now, particular cultural characteristics do not group together geographically. For example, in locations such as India, Indonesia, the Philippines and Latin America, shiny hair is a key perception of beauty.

Digital retail will dominate growth, and change the industry landscape. Much of the growth in retail today is in non-store business. Although online sales are still a relatively small part of the market, their compound annual growth rates of 18 per cent are far outstripping that of high street retail. With lower costs and greater flexibility, so-called retailing will lead the way. This will disrupt the traditional structure of the industry, as consumer brands discover new opportunities to sell direct to their consumers, and build a relationship with them, more than ever before. This could give rise to other challenges, such as product returns, and for this reason many consumer brands may partner with digital leaders, as opposed to established grocery retailers, to resolve it.

Consumer demand for a seamless shopping experience regardless of where and when they shop will force companies to ensure integration throughout their organisation. The previously intangible aspects of how consumers discover and value goods is becoming far more valuable — from how they are paid for, delivered, used, and disposed of. This demands that these fragmented aspects of the value chain can no longer be arm's length processes, they need to be integrated with the manufacturer's brand. Nespresso's market strength stems partly from this, ensuring a seamless customer experience from its concept stores to its online fulfilment channels to its dedicated support lines.

Networked consumers will increasingly expect an interactive, customised and meaningful relationship with their brands of choice. Marketing departments have long been expert in the art of monologue, endlessly highlighting a brand's merits to consumers. Now they need to learn the art of dialogue, find the points of intersection between what they want to say and what a consumer wants to hear, through multiple channels, including digital. Content needs to be customised, timely and continuously relevant to individual consumers.

Product ranges will expand rapidly, as constraints set by physical space decrease with the digital revolution. We foresee an exponential expansion of product ranges to meet consumers' individual needs around the world. This could mean higher profits as consumers would pay more for more specific, tailored and targeted products.

Digitally-enabled consumer co-creation will become normal, allowing individuals to customise their chosen products. As advances in technology make mass customisation a reality, consumers will be able to specify products to suit their individual tastes, such as fragrance, flavour, pack size and colour. Companies used to exploiting the mass market will have to learn to exploit the market of 'one'.

MAKING SENSE OF A NEW LANDSCAPE

These trends are blurring the boundaries for companies. Product manufacturers are becoming retailers, distributors and media operators. Consumers are no longer just passive shoppers, they are critics, product co-creators, and, in some instances, even digital storeowners.

Although firms are talking about the need to digitise their businesses, they are still a long way from understanding the scale of the revolution that is coming. Right now, too many companies are simply seeing the digital revolution as a technology issue: adding another channel to reach consumers. It is far more. It is a commercial revolution that must be addressed strategically across the business, rather than being led tactically by the IT function.

It's time to stop dabbling in digital. Consumer-facing companies need to disrupt with a digital operating model.

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