CENTER FOR CONSUMER INSIGHTS
MARKETING, SALES & PRICING

The State of Digital Transformation in Southeast Asia

How CPG can take the lead and drive business growth

October 2017

The Boston Consulting Group

Purpose of study

The digital ecosystem in Southeast Asia is rapidly evolving, giving rise to new consumer needs and disruptive business models. In this challenging environment, the incumbents—while cognizant of the needs of digital transformation—were looking to learn more about this megatrend and how to respond to it.

To inspire, educate, and facilitate digital advancement, BCG, Google, and Mindshare conducted an assessment of more than 100 companies across SEA.

Agenda

The digital imperative in SEA

CONSUMER GOODS SEA GTM STUDY RESULTS

Digital marketing

E-commerce

Digitization of sales

Digital is rapidly influencing consumer behavior and habits

Today's consumer is increasingly digitally savvy

Mobile is a key device for all online activities and internet access on the go.

Increase of time spent on digital platforms.

53% of SEA's combined population is online.[1]

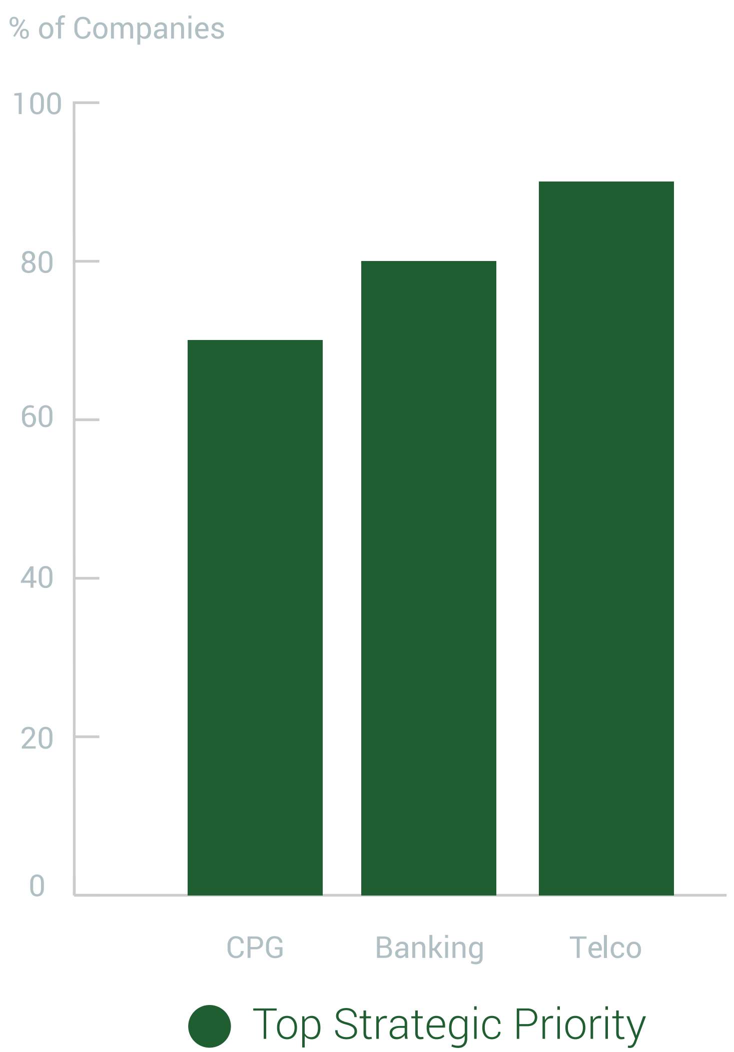
Digital is transforming their shopping habits

- Shifting trust dynamics
- Curators and creators
- Online deal-savvy
- Conversion to mobile
- Hyper-targeting, speed
- Increasing use of messaging apps
- Retail shifting to e-commerce

1. 1, 2 Press research, 3 Digital in South East Asia, BCG internal consumer survey 2015, 2016

This urgency is being felt across companies in SEA

~70% have digital as their top strategic priority...



Source: BCG- Google digital transformation survey 2016

... with leadership cognizant about impending challenges

Marketing

- Location-based marketing
- Real-time demand capturing
- Multiple campaigns across touchpoints

"Consumer purchase pathways have become very complex, making influencing them more challenging."
—Marketing Director, CPG

Sales

- Unlimited shelf space with e-commerce
- Low distribution investment to reach market

"Industry is heading in the direction where the consumer expects retailer to ship good expecting their needs."
—Sales Director, CPG

SCM

- Demand-driven SCM
- 3D printing products
- Geo-analytic-based route optimization
- Sensor-based replenishment

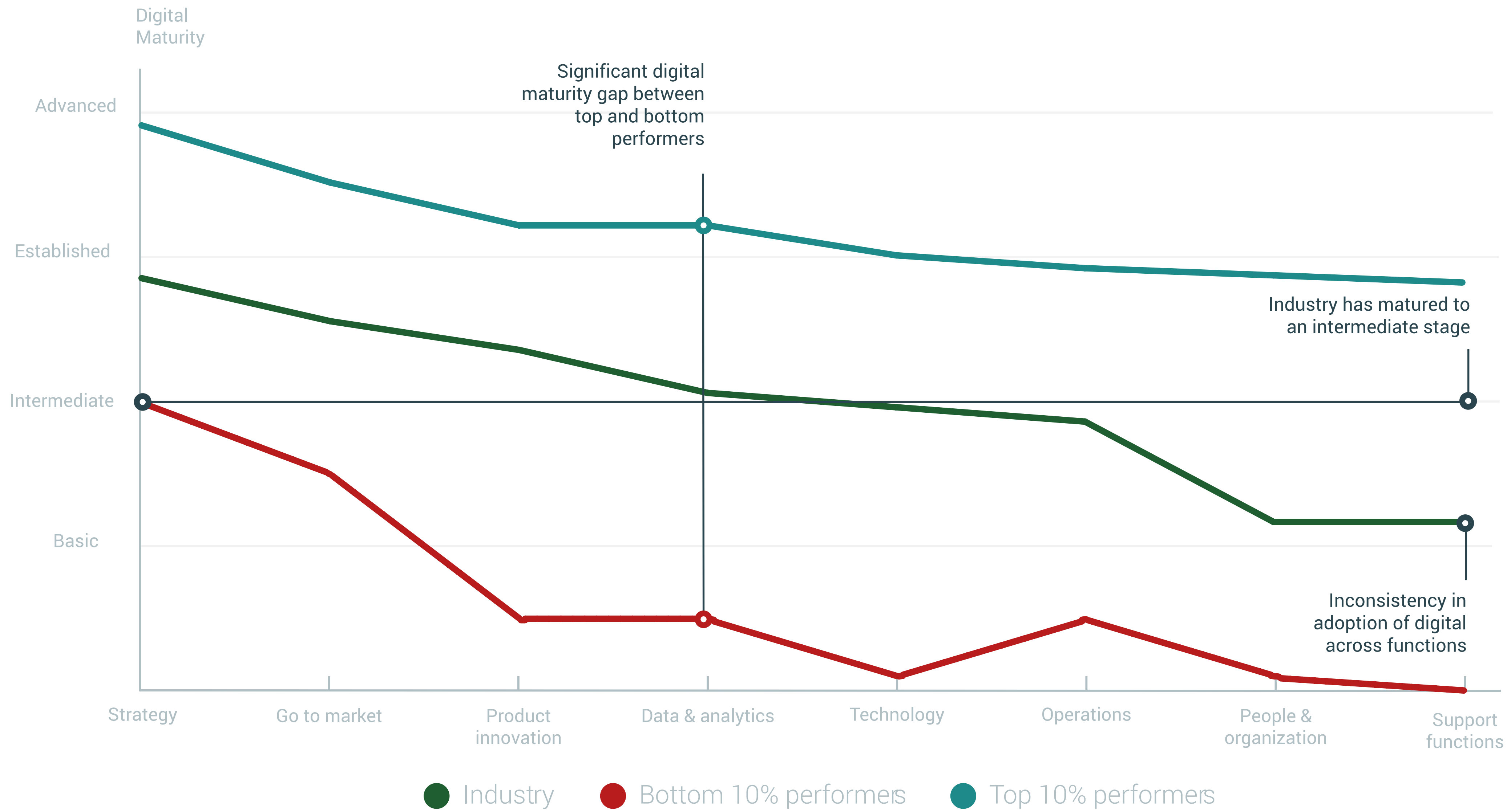
"Cost savings of the order of 10-30% can be tapped by upgrading to digital supply chain."
—SCM Manager, CPG

Innovation

- Crowdsourcing ideas
- Prototyping, A/B testing
- Innovative business model

"Digital is disrupting the very core of business. It's challenging the long-held strengths of companies."
—Digital Head, CPG

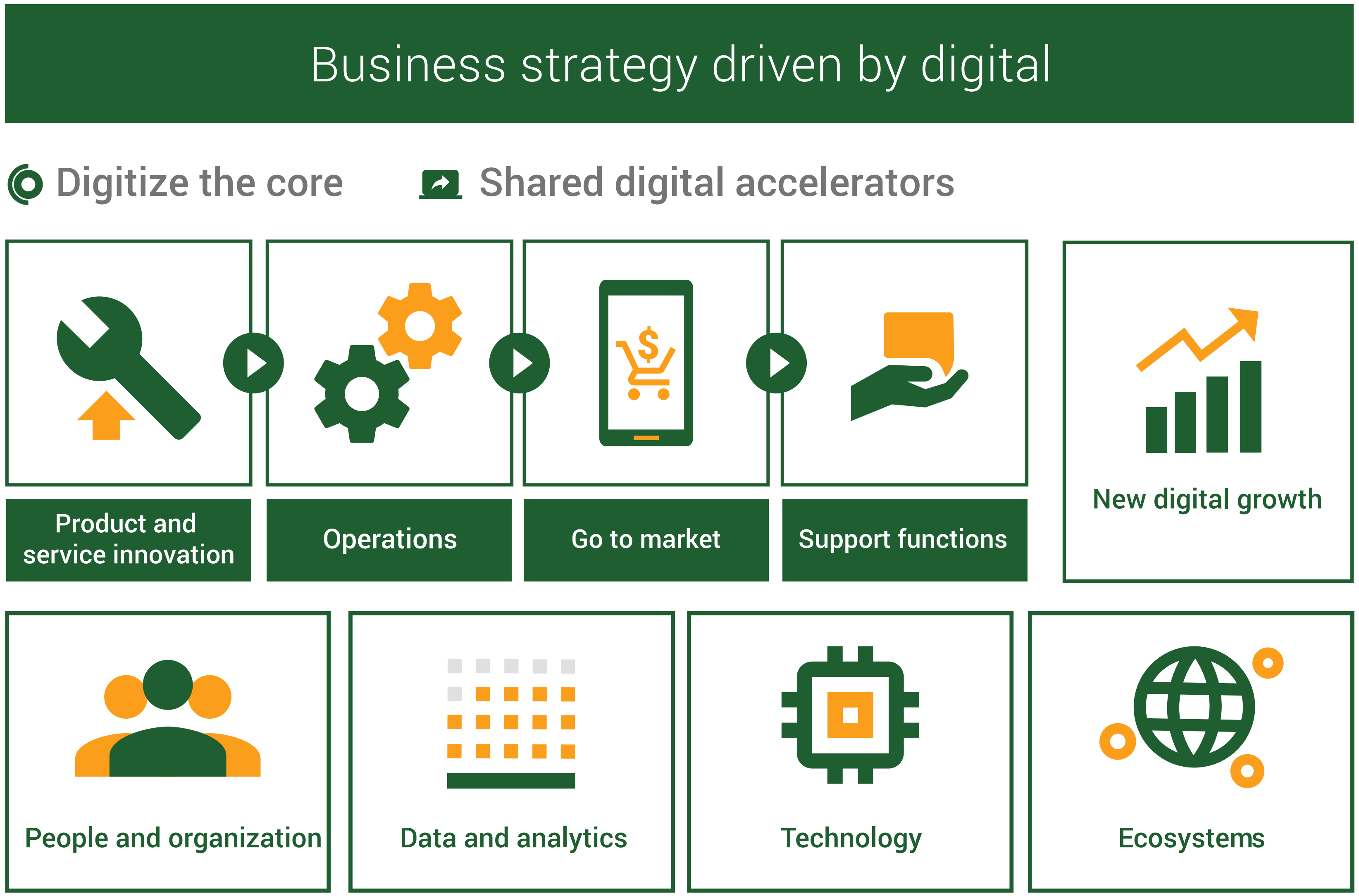
Reaction to digital transformation is inconsistent with huge gap between leaders and laggards, across functions



A structured, systematic, and coherent approach to digital transformation is needed to reap its full potential.

Source: BCG- Google digital transformation survey 2016

BCG perspective: Digital transformation requires concerted efforts across functions



People and organization, data and analytics, technology , and ecosystems are the building blocks of digital transformation.

To educate, inspire, and facilitate digital advancement, an assessment was conducted

Reached more than 100 companies in SEA across three specific industries

Interviewed leaders and observed more than 100 companies from Singapore, Thailand, Malaysia, Vietnam, Indonesia, and the Philippines to assess their digital transformations.

Consumer

Financial institutions

Technology, media & telecom

In collaboration with BCG, Google, and Mindshare

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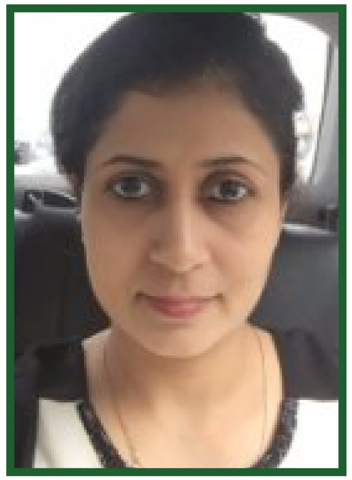

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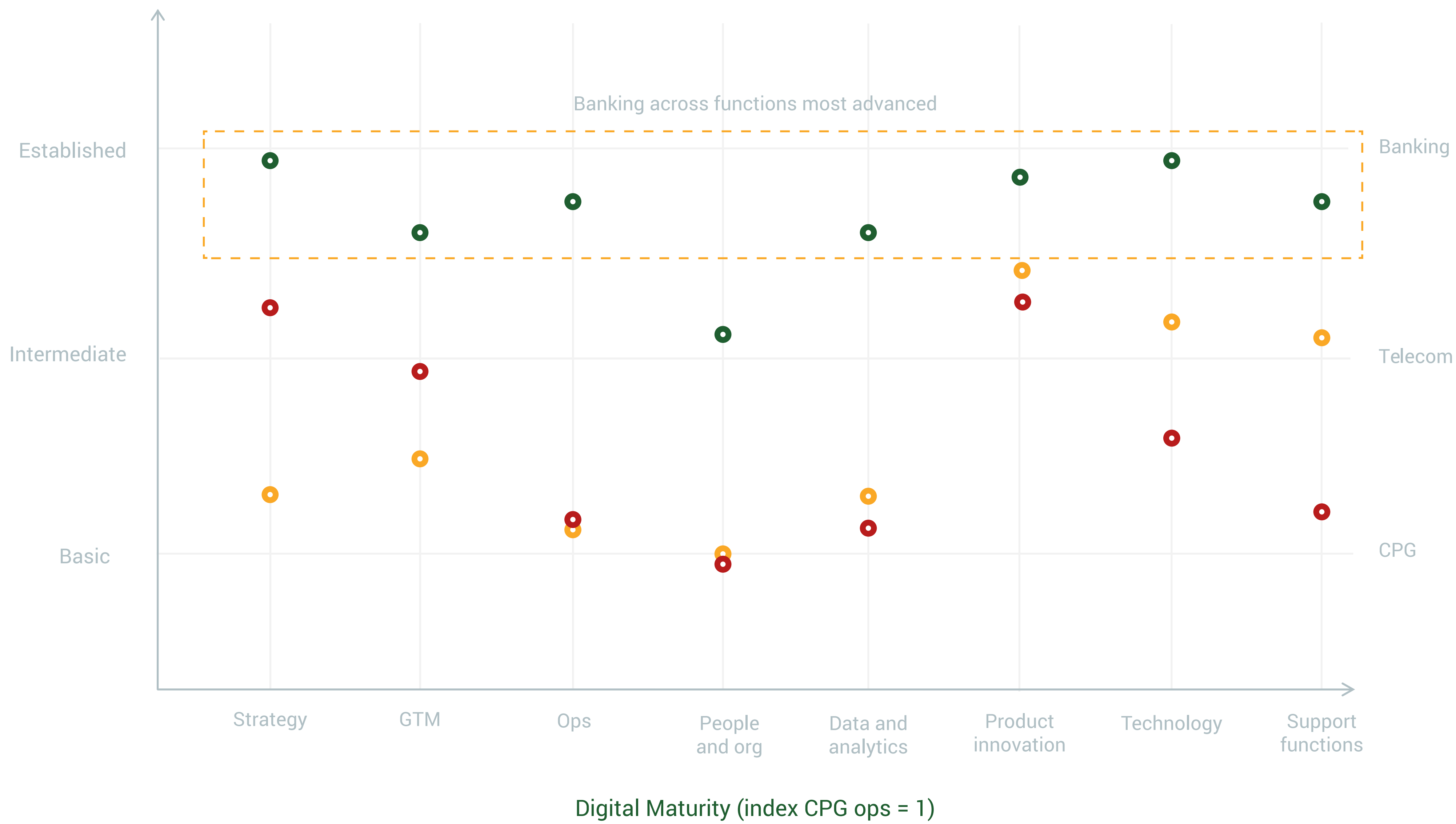
BCG Google MINDSHARE

Key insight: Consumer packaged goods industry lags behind the telecom and financial services industries in SEA



Source: BCG- Google digital transformation survey 2016

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The digital imperative in SEA

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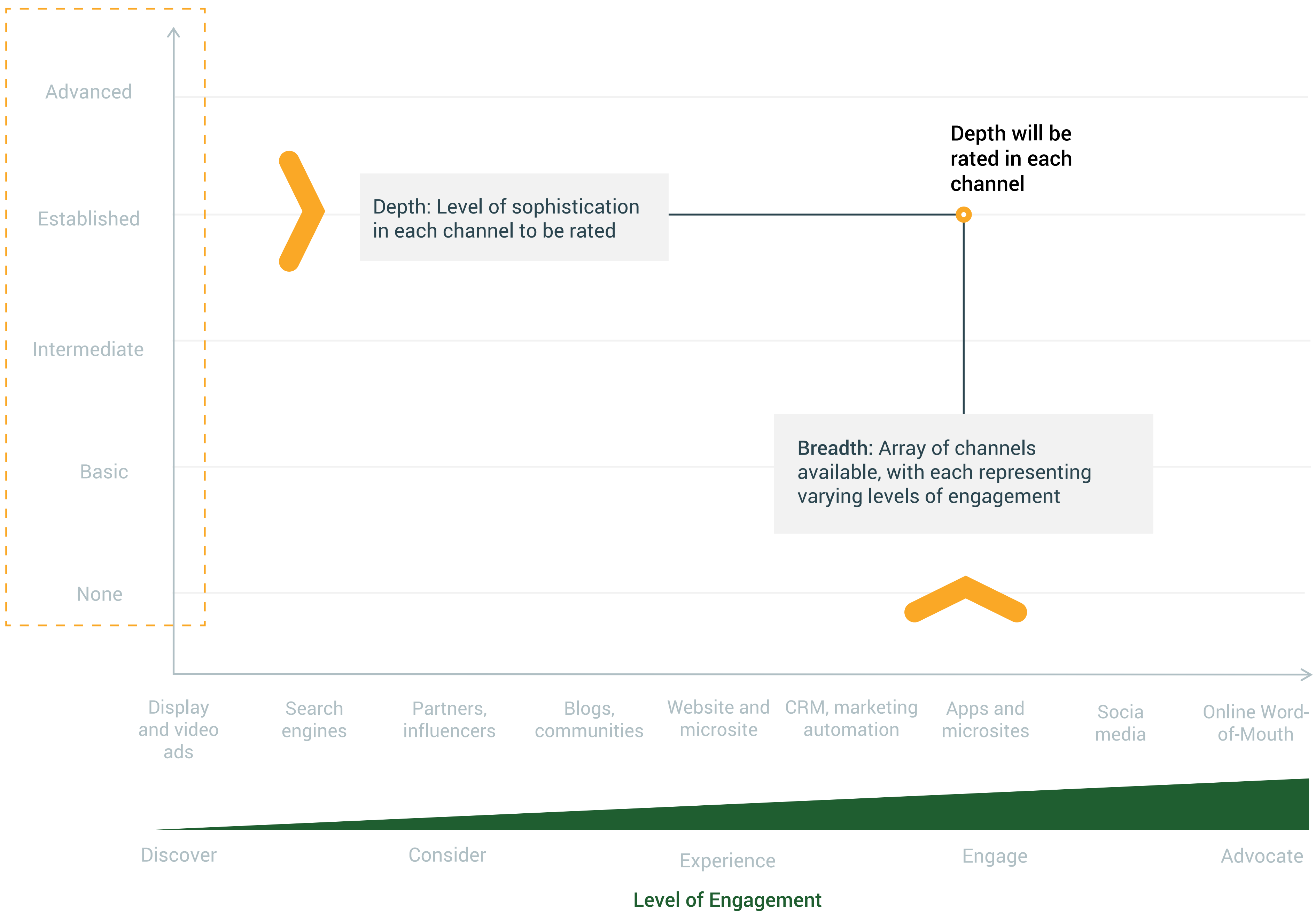
- **Digital marketing**
- E-commerce
- Digitization of sales

Digital marketing maturity of companies measured across depth and breadth of engagement



Creating an "advocate" in someone means enabling "discover" in another.

1. App may not be available in some countries
Source: BCG analysis, Happy Marketer analysis

Example: FMCG brand assessment on the engagement maturity canvas

Creating an "advocate" in someone means enabling "discover" in another.

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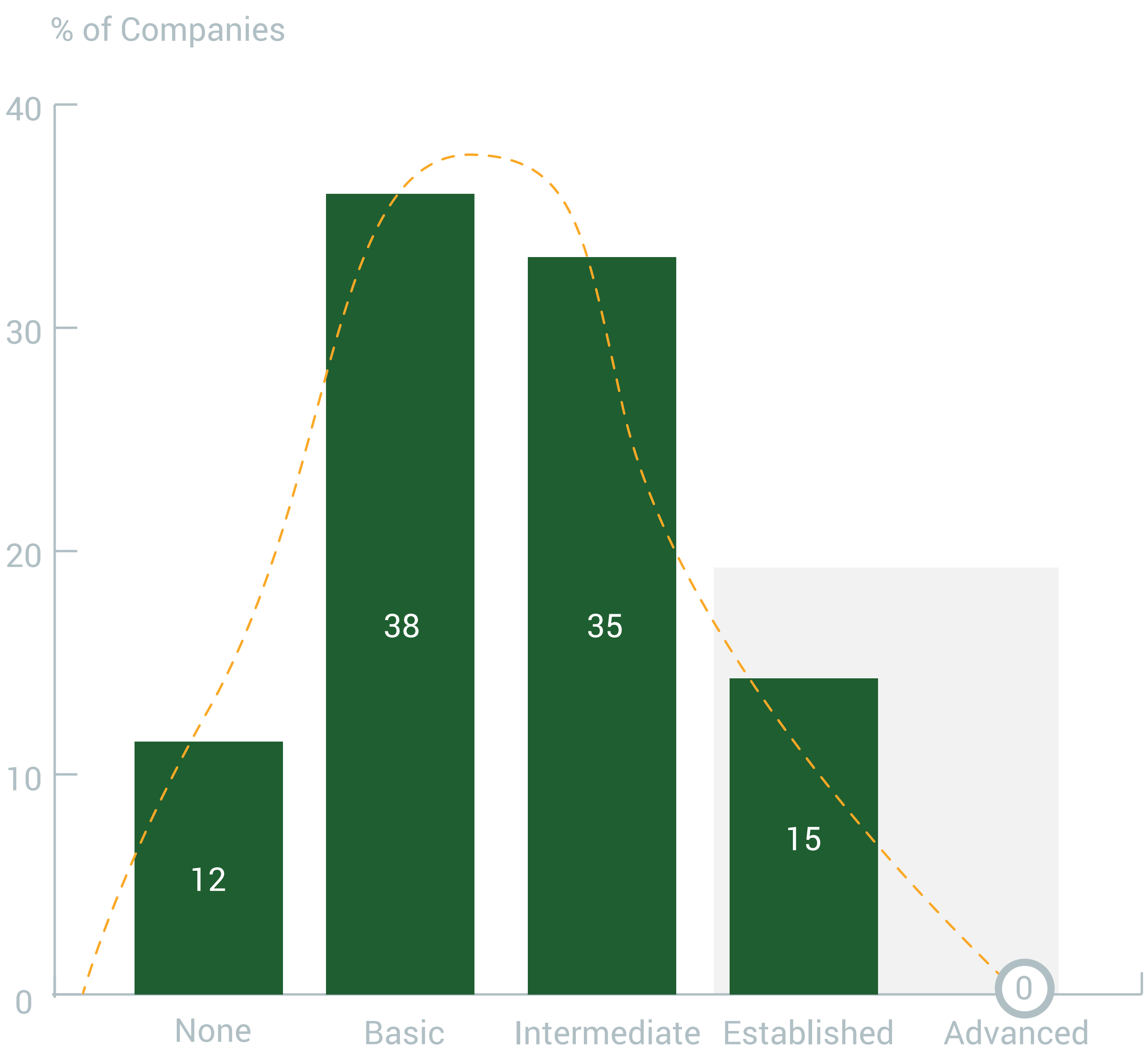
Large dispersion within CPG sector; leaders in digital marketing are primarily MNCs

< 15% of companies have reached established maturity



Leaders in digital marketing are MNCs

MNCs are leading in digital marketing execution across touchpoints

- Operate **across touchpoints** from discovery to advocacy
- **Messaging strategy consistent** across campaigns and touchpoints
- Execution of digital marketing is **coherent with offline marketing**
- Executing digital marketing for **more than five years** and increasing spends on digital

Factors enabling digital marketing excellence for leaders

Digital is the top agenda for the CEO and part of yearly investment and review cycle

- Dedicated budget and resources to lead digital initiatives
- Performance tracking integrated with quarterly and yearly review cycle
- Commissioning of special taskforce in initial years of digital transformation

Execute campaigns across multiple touchpoints with a basic digital rhythm topped with curated use of channel for specific events

- Understand role of each digital marketing channel in consumer purchase pathway
- Active presence maintained across touchpoints

Partner with specialized media/ creative agencies with digital marketing capabilities

- Engagement with nimble and niche agencies for curated content creation
- Creating mass snackable content for digital channels at nimble speed is strong foothold of small digital creative houses
- Media AOR/creative AOR role extended to integrate, collaborate, and synchronize efforts in digital marketing

Invest in data integration to access richer insights

- Technology and IT upgraded to integrate sales, marketing, CRM data, etc. to provide singular view of customers
- Partnership with third party to access real-time information for quicker response

Invest in people training and capability building

- Diverse training techniques implemented from classroom training by experts, sharing of success stories from global counterparts
- Leadership support to learn on the job by testing and failing

Leaders utilizing digital marketing potential in unique ways

Colgate

- Used location-based targeting and created a virtual circle by tagging three nearby cellular towers
- Random users receive a call from a radio personality, telling them to visit the Colgate booth for free samples, chance to win prizes, etc.

The Coffee Bean & Tea Leaf

- Converted paper coupons into e-coupons
- Launched through a browser-based web app called "Spin the Bean"
- Gets real-time insights on redemption patterns through a dashboard

Starbucks

- Loyalty members can opt into weekly personalized offers
- Built cross-channel capability, including email offers and mobile recommendations
- Uses scalable technology platform

McDonald's

- Created an agile ad delivery system in partnership with Google that responded to restaurant capacity in real time and dynamically adjusted ad spend and messaging in each delivery neighborhood
- 10% increase in ROAS (return on ad spend)

Revitalizing an icon for the digital consumer: Wall's Thailand

The iconic, tricycle-riding Wall's Man is an institution in Thailand, bringing ice cream and joy to millions of Thais across the country.

We connected the iconic Wall's ice cream man to his consumers by creating a new, mobile-activated service with GPS tracking and interactive messaging, turning a traditional icon into a new-world phenomenon.

The Challenge

Maintaining relevance

Due to changes in consumer behavior, the brand's core audience had become increasingly hard to engage, and sales shifted from street vendors to convenience stores.

Stock management and fuel

Selling less makes stock management hard for vendors, and leads to significant amounts of wastage of stock and fuel.

Community

Vendors are critical to local sustainable business and were losing touch.

The Approach

Adapted to consumers

Lean in to the change: engage core target audiences digitally.

Launched a bot

within Line chat platform for users to order an ice cream, with immediate fulfilment by a nearby vendor on wheels.

The Results

4% lift in sales

in first two months of activation

17% lift in vendor recruitment

More people are joining Wall's vendor team, making distribution faster.

33% of Thais are friends with Wall's

on the Line platform.

Please view case study link:
https://vimeo.com/193571760

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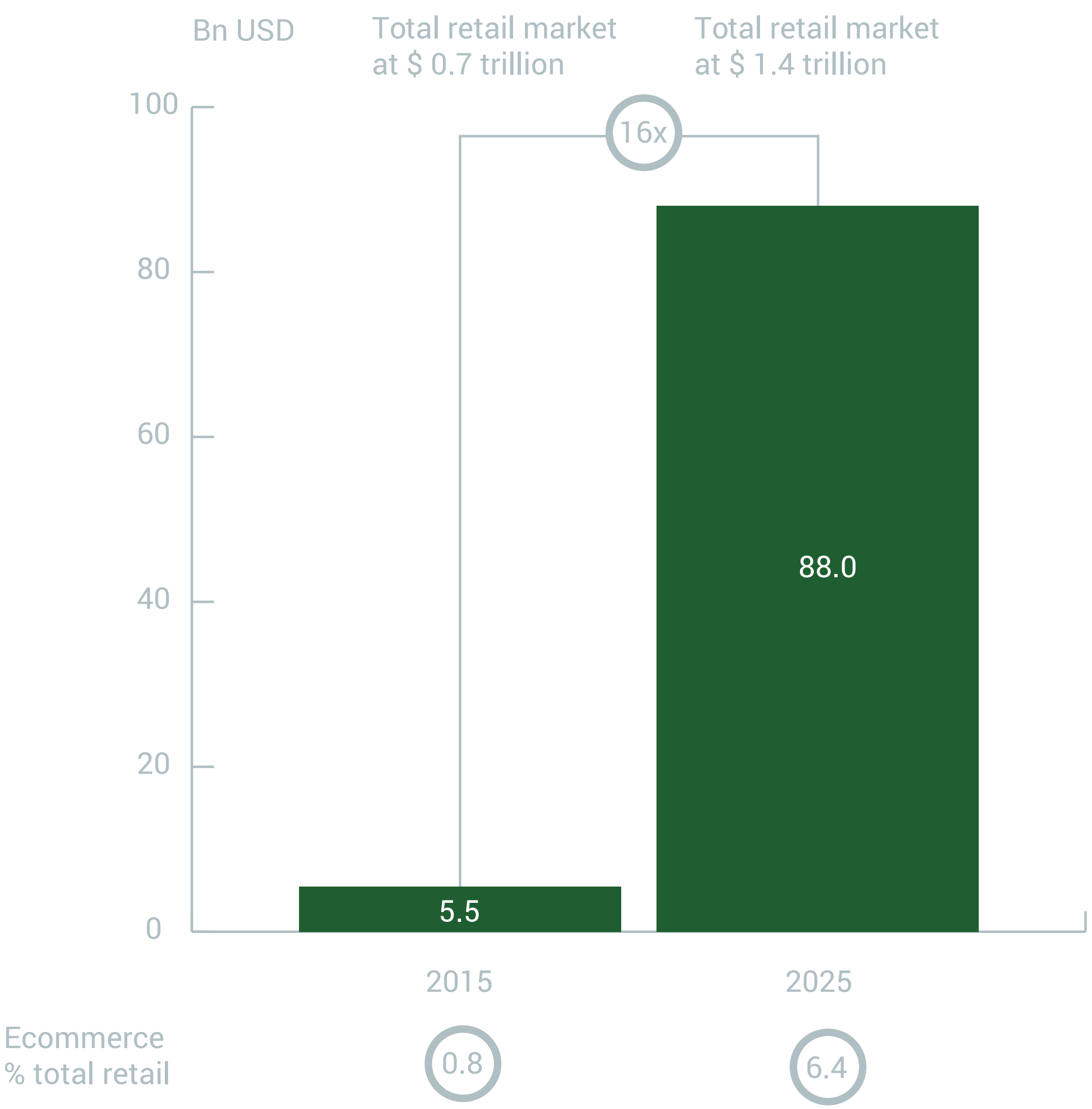
Digitization of sales

E-commerce in SEA is growing exponentially

E-commerce growing fast at ~32% YoY...



... with competition intensifying for market share

Alibaba joins Lazada board as a **controlling shareholder and invests $1B USD**. As part of the deal, Rocket offloaded a 9.1% stake for $137M USD.

Amazon **entered Southeast Asia** via Singapore (with rumors of expansion plans across SEA).

Southeast Asia is poised to become **one of the world's fastest-growing regions for e-commerce revenues**, nearing $88B USD spends by 2025.

Source: Google-Temasek Report

Most CPG players are building an online presence

		LAZADA Effortless Shopping	PUREGOLD	Robinsons Supermarket	Manufacturer.com
Int'l players	Del Monte Quality	✗	✓	✓	✗
	Nestlé	✓	✓	✓	✗
	Mondelēz International	✓	✗	✓	✗
	P&G	✓	✓	✓	✗
	Unilever	✓	✓	✓	✓
Local players*	San Miguel Corporation	✓	✓	✓	✓
	Monde Nissin	✗	✓	✓	✓
	Universal Robina	✓	✓	✗	✗

Lack of sophistication in execution

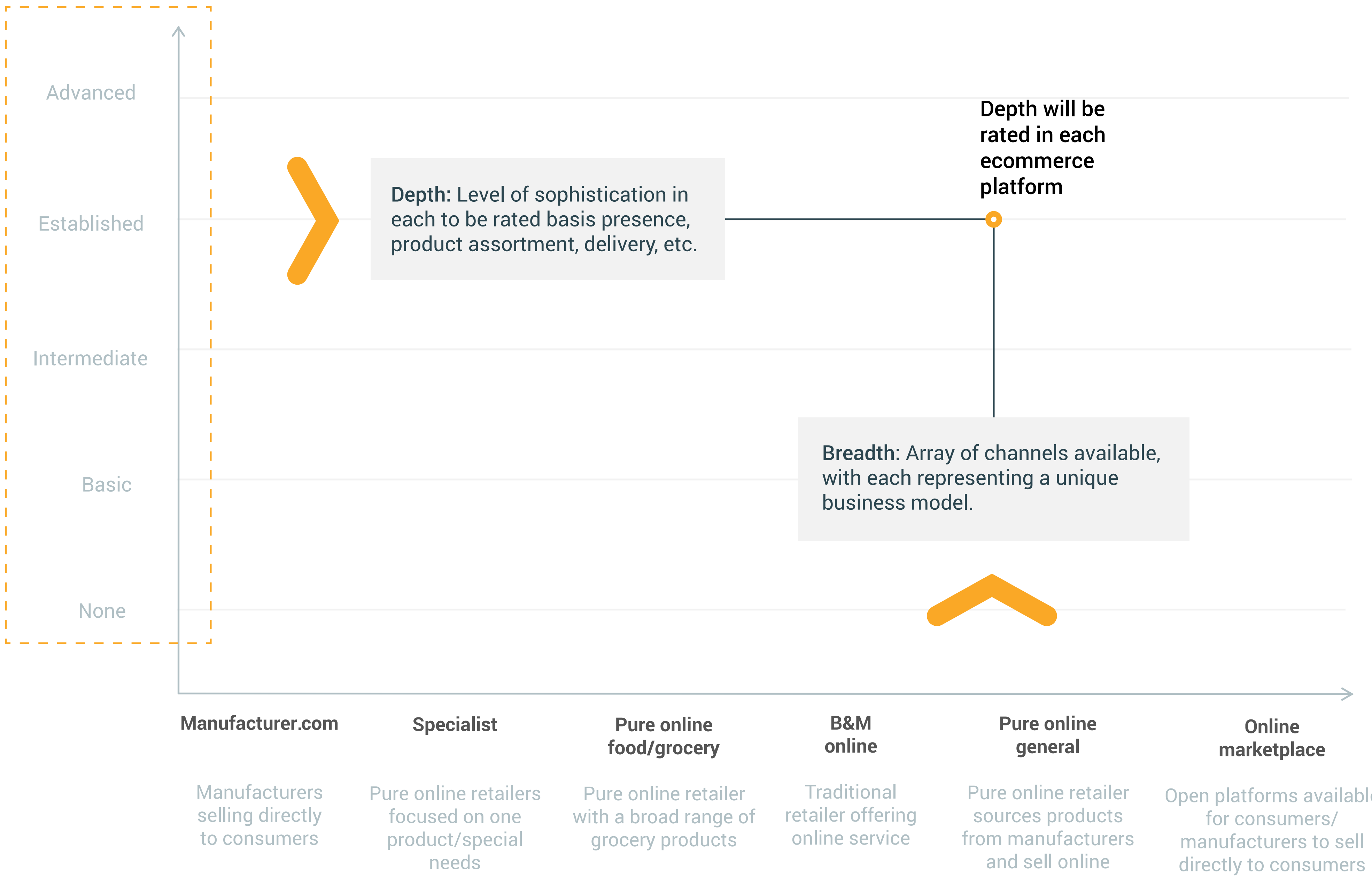
E-commerce play across companies is mostly selling key SKUs across multiple online channels

- Lack of sophistication on product assortment, delivery models across platforms
- Lack of discretion in marketing, promotions, etc. across online e-commerce channels

> "We are very active in e-commerce. It's a big macro trend, and we are on top of it. We are selling most of our products on Lazada."
>
> –Sales Head, CPG

*PH market

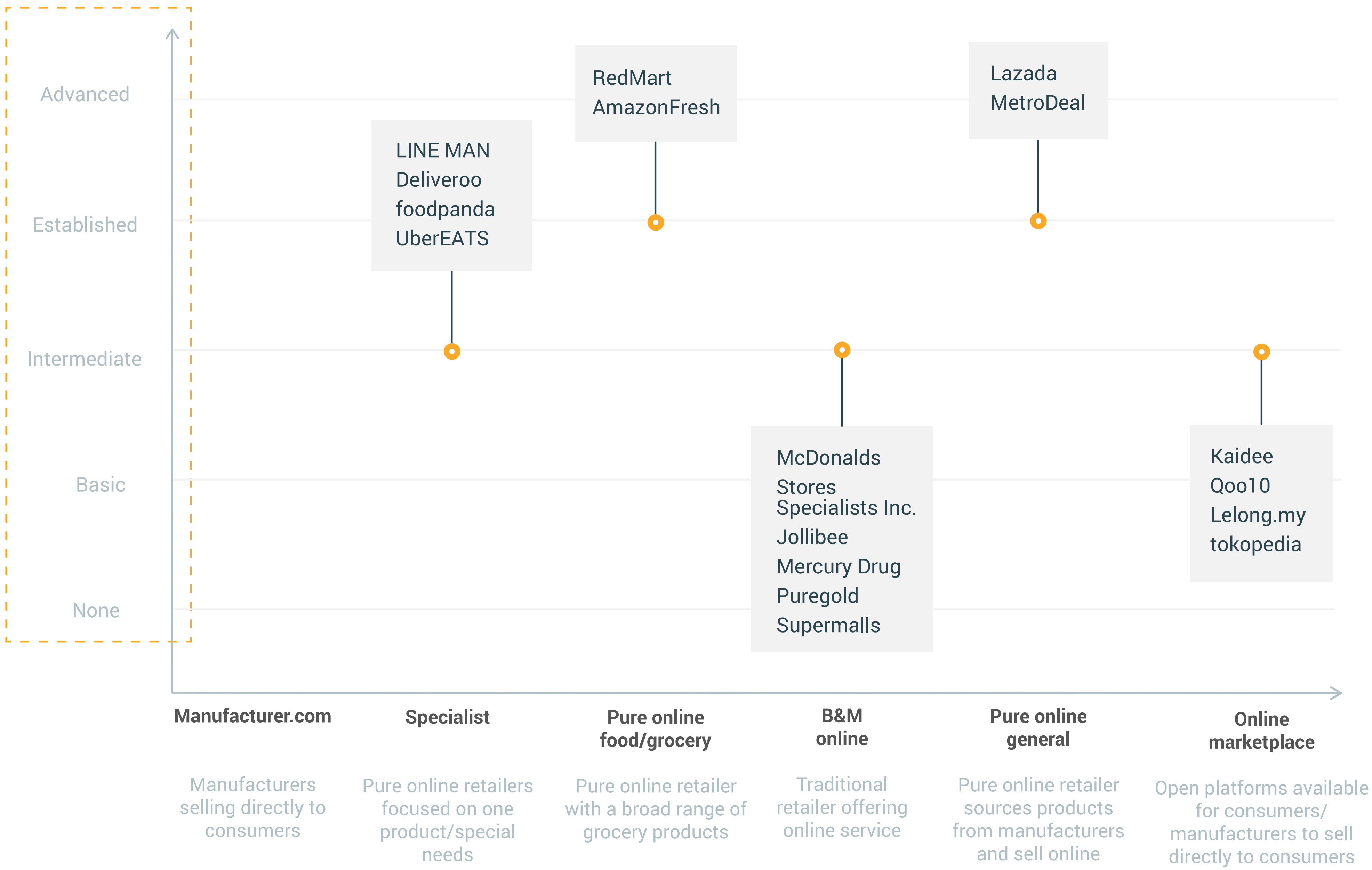
E-commerce maturity of companies measured across depth and breadth of platforms



Multiple platforms for ecommerce engagement with consumers.

1. App may not be available in some countries
Source: BCG analysis, Happy Marketer analysis

E-commerce maturity of companies measured across depth and breadth of platforms



Multiple platforms for ecommerce engagement with consumers.

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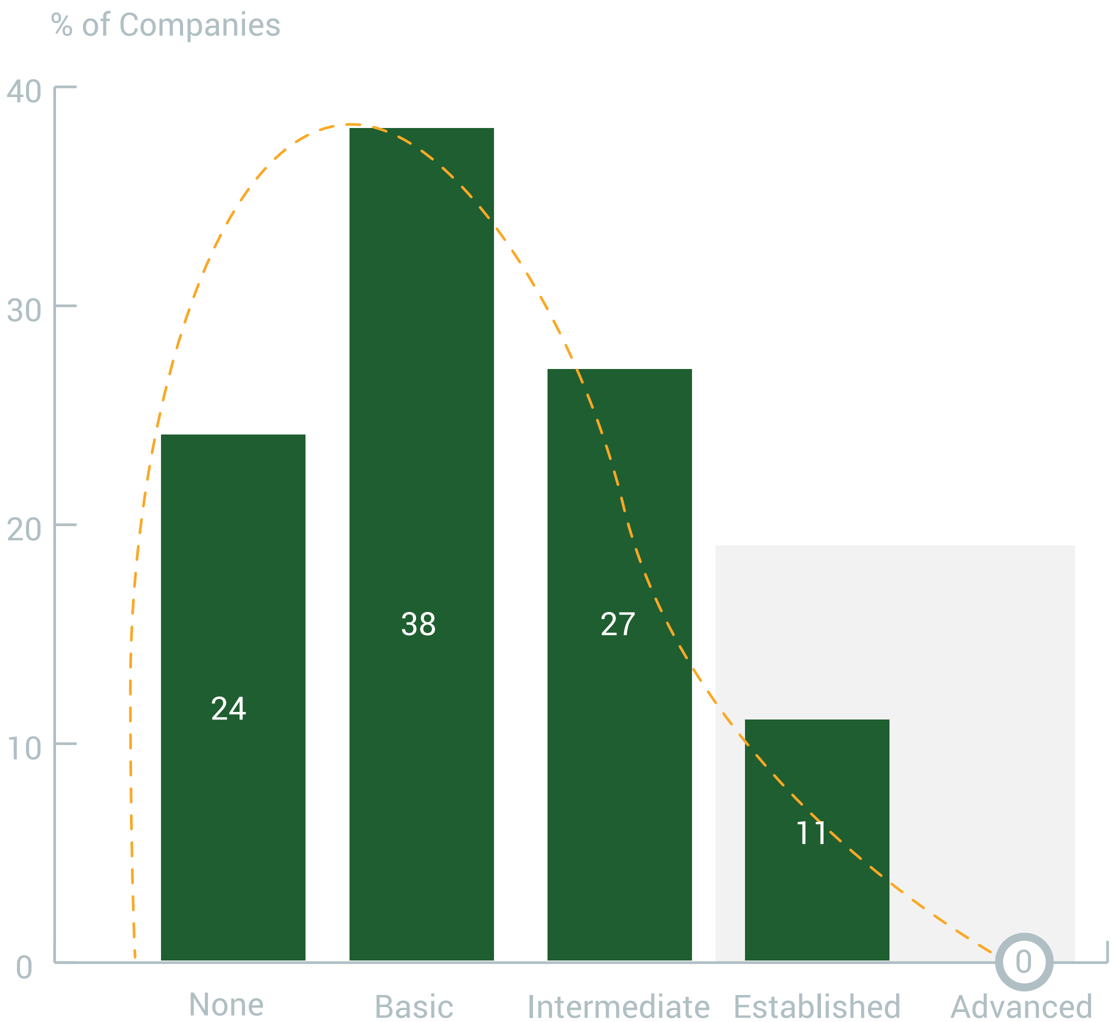
Leaders in e-commerce are primarily MNCs, operating in babycare, cosmetics, and personal care categories

~10 % of companies have achieved e-commerce maturity of established



Leaders in e-commerce are MNCs

MNCs are leading in e-commerce execution across platforms

- Operate **across platforms** with unique channel strategy for each
- Mostly operate in **babycare, cosmetics, and personal care** categories
- Developed partnerships with e-commerce platform providers to minimize channel conflict
- Product **portfolio and promotions strategy** specific to each business model

Factors enabling e-commerce excellence for leaders

E-commerce is part of overall channel strategy and is managed from investment and planning POV

- Channel margin and product portfolio decided to avoid channel conflict
- Pricing decided to ensure level playing field of all distribution channels

Customized product assortment for e-commerce and dedicated role for brand

- Promotions and offers customized to platform role (i.e discounter platform or premium platform)
- Certain players use e-commerce as platform to garner early customer insights in a new product launch
- Product assortment based on customer profile of platform and its business model

Joint business planning with platforms partners and logistics service providers

- Yearly and quarterly engagement with e-commerce partners to ensure that right digital shelf, promotions are planned by month
- Marketing budget sharing done between platform providers and brand to ensure favorable economics

Platform marketing to ensure consumer engagement on platform beyond purchase

- E-commerce experience enriched with engaging content to further develop customer need
- E-commerce platform to sell product experience, ideas rather than just product
- Driving economics with co-marketing with e-retailers, direct platform providers

Backend fulfillment models designed to address specific needs of e-commerce

- Supply chain in terms of logistics, warehousing, delivery support, etc. geared to kind of fulfillment model
- Partnership with last-mile service providers to ensure seamless customer experience
- Motorbike deliveries leading to increased consumer expectations on super fast deliveries

Best-in-class examples of e-commerce execution in SEA

Mondelēz International

- Premium online exclusive offering to avoid competition from Amazon
- Premium price to compensate for higher operational cost
- Seasonal only to ensure sufficient order volume for cost-efficient logistics

L'ORÉAL

- Established deeper relationship with customer via platform marketing of makeup genius app
- Allowed customers to test products virtually and create store experience

Nestlé

- Developed end-to-end e-commerce strategy, piggybacking on Lazada's operation
- Attracted customer with online only deals
- Drove volume by selling in bulk and bundled promotions
- Offered real savings with cash back

SK-II

- SKII maintained different channel strategy for mfg.com, Sephora, and Lazada
- Mfg.com used to provide exclusive new product offers
- Sephora and Lazada run promotions on bundle packs

How Lazada outranked the rest in Southeast Asia

LAZADA
Effortless Shopping

Southeast Asia's leading online shopping mall, Lazada, used Google's target outranking share bid strategy to increase its website traffic by 30%, growing market share for key product categories.

The Challenge

Customer acquisition

Acquire new customers while competing more effectively in key product categories

The Approach

Automate operations

Employed programmatic AdWords flexible bid strategies

Conquest at scale

Used the target outranking share bid strategy to automate cost-per-click bids with the goal of outranking competitors on strategic search terms

The Results

More website visitors

Increased traffic by more than 30%

Placement above competitors increased

Improved target outranking share against specific competitor domains by up to 280% in four weeks

More exposure to the right customers

Grew ad impression share by 50%

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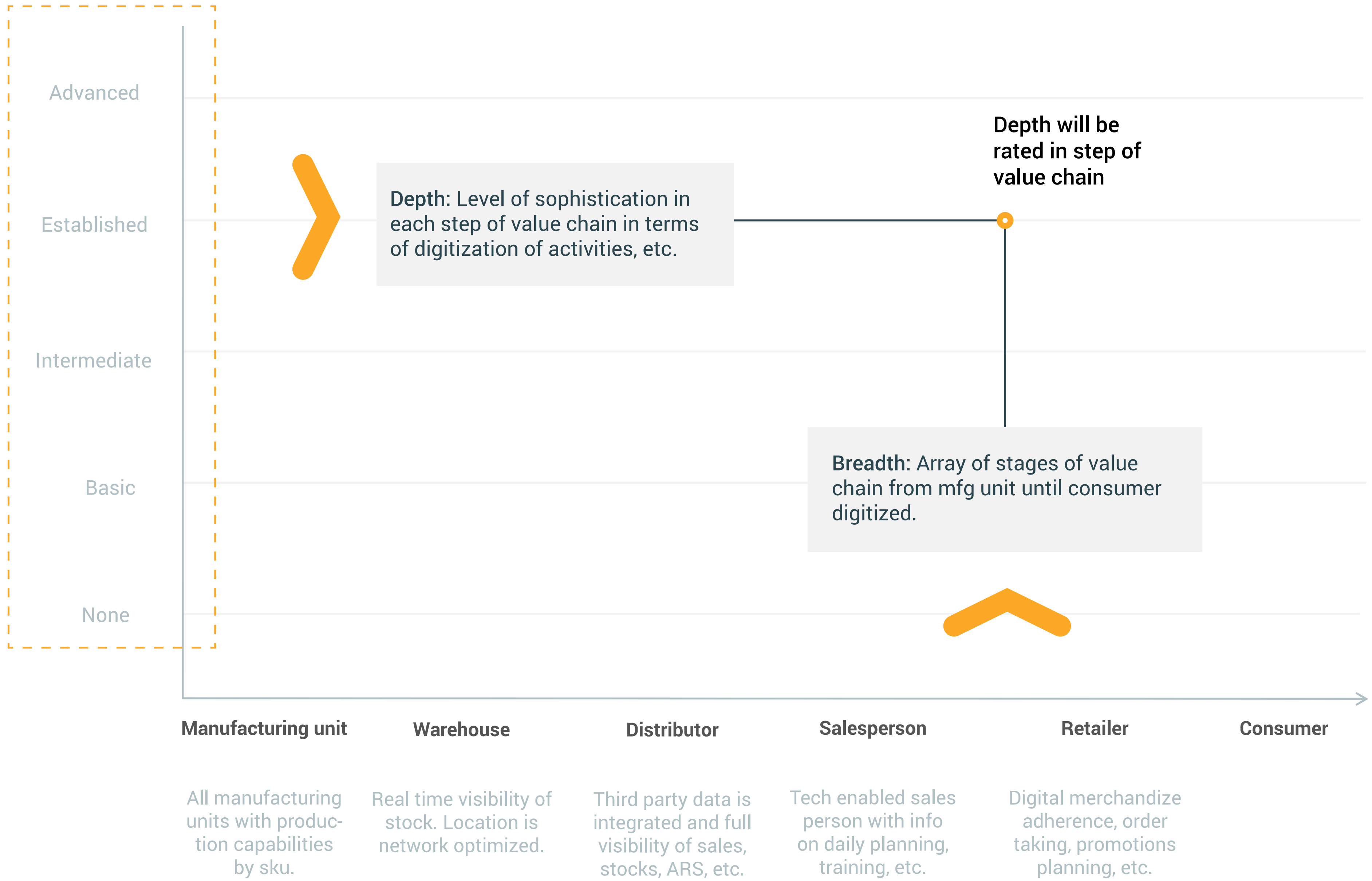
Digitization of sales

Digitization of sales measured across depth and breadth of value chain



Journey of product from manufacturing unit till consumer.

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Source: BCG analysis, Happy Marketer analysis

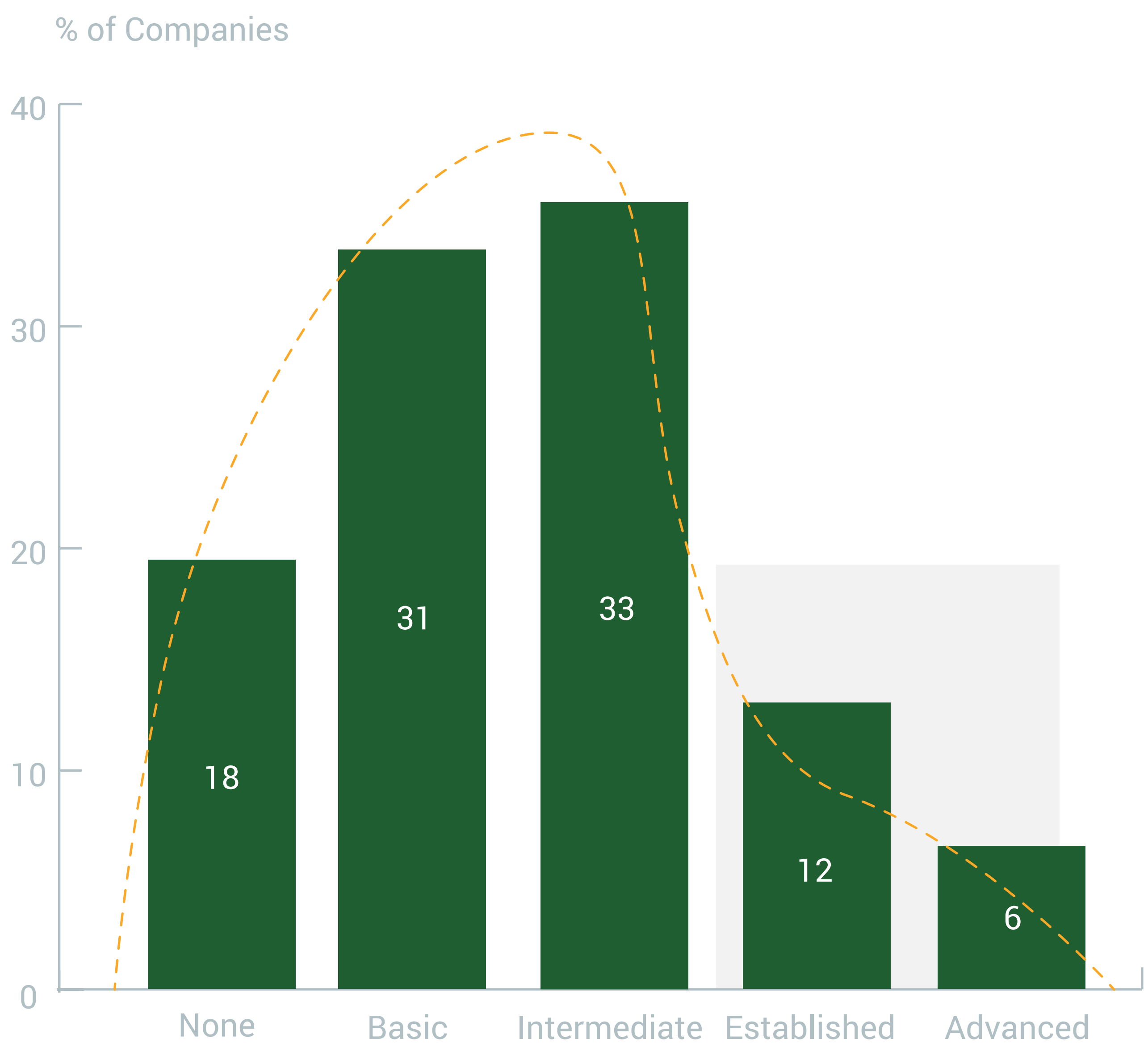
Digitization of sales measured across depth and breadth of value chain

Journey of product from manufacturing unit till consumer.

1. App may not be available in some countries
Source: BCG analysis, Happy Marketer analysis

Leaders in digitization of sales are primarily MNCs with strong operations in India

~10% of companies have achieved sales digitization



Leaders in e-commerce are MNCs

MNCs are leading in sales digitization across value chain

- Utilized digital tools across all the **touch points of sales digitization**
- Mostly have **strong operations in India** and importing successful sales model to SEA from India
- Led **integration of third-party data** (i.e. distributors, retailers with internal systems)
- Enabled sales force with **digital support in form of handheld devices** with access to product, sales, and merchandise information

Leaders are excelling by investing in GTM: Sales digitization

Invest in digitization of daily management systems and weeding non-value activities

- Information such as order taking, cash collection, e-invoicing, and order fulfillment captured and reviewed daily
- Target monitoring for distributors/salesman/outlets/route for sales by SKU and promotions
- Performance management of salesperson in terms of store visits, order fulfillment

Integrated distributors and retailers information systems with internal systems

- Operations management: Billing, inventory info, dispatch visibility, and system to capture record payments, aging, partial payments, etc.
- Order fulfillment and target monitoring: SKU allocation to stores and sales and spends monitoring vs. target

Upgrading skill sets of sales force by enabling them with tech support

- Sales call planning: Outlets covered during the day (basis geo-analytics and salesperson allocation)
- Knowledge transfer channel: Online training and ready access to counterparts to access guidance and information

Online route planning to ensure logistics is optimized and right SKU with right promotion is available at right store

- Tracking delivery from warehouse to distributors to retailers in real time with preplanned info on promotions and SKUs t o push by each region
- Live GPS-based monitoring of truck with alerts on deviations

Management is technology enabled for tracking company spend and effectiveness:

- ROI monitoring and channel spend
- Trade cap setting and monitoring
- Outlet profitability tracking
- Scheme/promo design and tracking, etc.

Best-in-class examples of digitization of sales in SEA

honestbee

- Mapped customers locations, orders, fleet, and inventory on map
- Maximize revenue **with route planning based on type of fleet** and product features
- Used the Distance Matrix API to build a batching engine, which automates dispatching drivers, and optimizes pickup and drop-off points

Procter&Gamble

Personalized performance management

- Reports include sales views, spends by rep
- Pipeline management and inventory tracking

Precise recommendations

- Uses geo-location to display top missing SKUs by store

FrieslandCampina

- Partnered with agencies for store census
- Enabled **gap analysis to identify untapped markets**
- Enabled **cohesive sales and distribution strategy** with analysis of competitive data in region

Honestbee scales sales and operations with cloud-based mapping

honestbee launched in Singapore in July 2015 with the goal of being Asia's largest and most convenient online supermarket. Soon after launching, the company looked for a mapping service that would increase the efficiency of overall sales and delivery operations.

The Challenge

Increase efficiency of dispatchers
To scale rapidly, honestbee needed a way to utilize its delivery workforce

Improve user experience
Ensure it is easy for consumers to use the front end of the sales platform

Future-proof for services not currently offered
While honestbee had an immediate need based on grocery delivery, it was important to build a solution capable of solving different use cases (such as delivering/collecting laundry)

The Approach

Selection of scalable online mapping platform
Used Google Maps based on quality and functionality of the software, especially for customization via APIs

Efficiency through batching
Used the Distance Matrix API to build a batching engine, which automates dispatching drivers, and optimizes pickup and drop-off points

Mobile-ready user front end
Enabled order placement using Android and iOS apps built around these mapping services

The Results

Geographical expansion
Launched a grocery delivery service in four Asian cities

Efficiency in sales and delivery
Improved the efficiency of dispatchers and drivers

Scalable software stack
Reduced development time and speed time to market by using Google Maps APIs

Things to consider when shifting to digital

- What is the strategic objective? Do you want to become a category leader in digital?
- What do you need to accomplish to achieve this strategic objective?
  - What are the quick wins in digital transformation to build a business case for transformation?
  - How will you address issues of proliferation of platforms, safety of digital advertising, etc.
- What capabilities need to be developed, and how will you develop them (i.e., in-house vs. partnership or acquisition)?
- What is the investment appetite of the organization to fund digital transformation?
- How can you structure your organization to better support the objective?