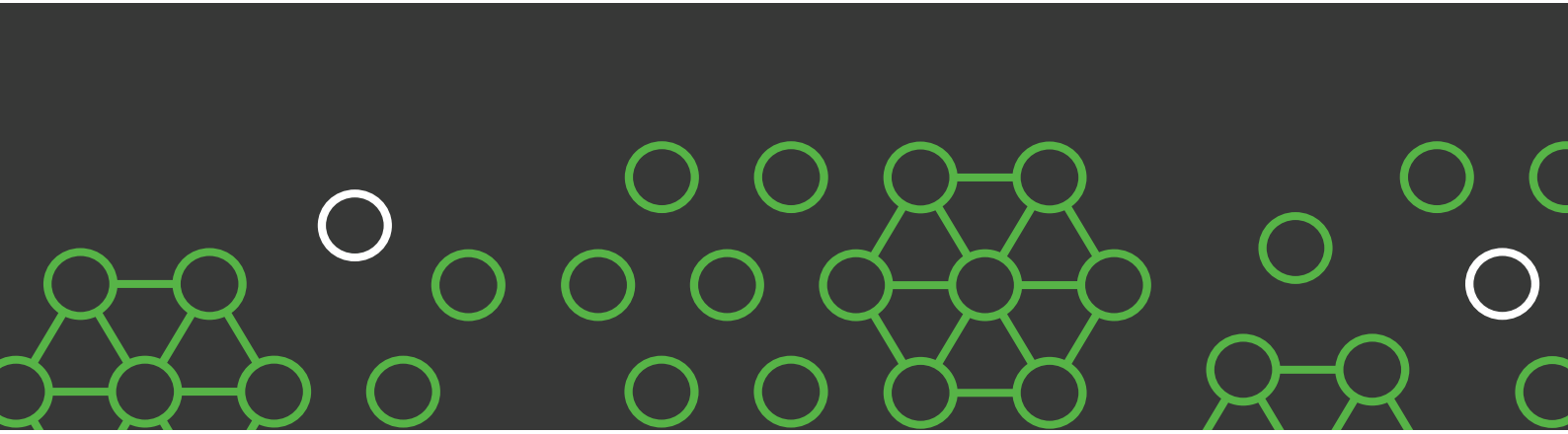


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# How consumer companies can survive—and thrive—in a digital world



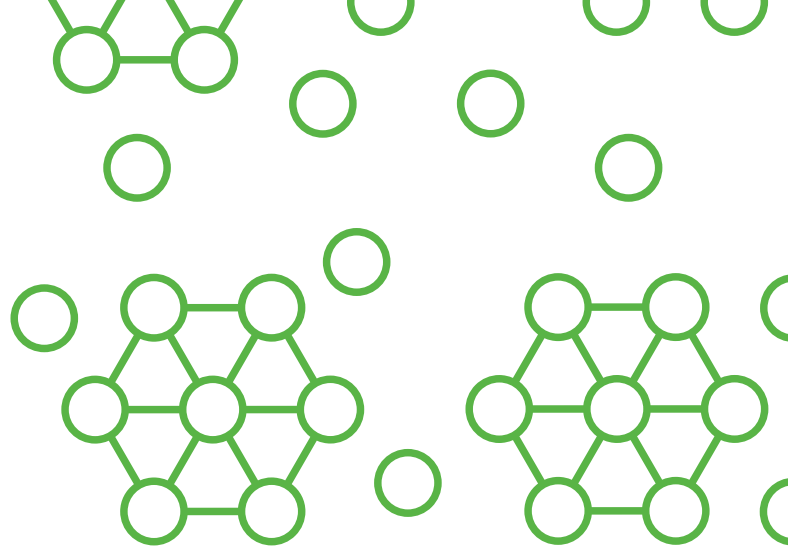
*Digital* now serves as a catchall term for all things related to the Internet and the increasing interconnectedness of people and things. But some traditional consumer-related companies in the business-to-business sector still dismiss digital business as something that's not directly relevant—or relevant only to e-commerce.

But just as the industrial revolution changed the world by bringing about substantial increases in production through steam power, digitally based technology has made possible enormous business advances that redefine the ways businesses operate as well as radical improvements in business performance.

Technology's penetration has reached an inflexion point where we're seeing the impact of digitization throughout the business world. The sheer proliferation of data, the Internet of Things (IoT), and digital automation are leading to disintermediation: new routes to market and new business risks to handle.

Companies that embrace digital transformation and figure out how to merge *digital excellence* with *operational excellence* are outperforming their competition by an average of 26%.<sup>1</sup> But managing the practical challenges isn't easy.

<sup>1</sup> George Westerman and Andrew McAfee, "The Digital Advantage: How Digital Leaders Outperform Their Peers in Every Industry," MIT Center for Digital Business, November 2012, <http://ebusiness.mit.edu/research/Briefs/TheDigitalAdvantage.pdf>.



## TRANSLATING DATA INTO INSIGHT

Reductions in the costs and sizes of electronic computing and storage devices, the pervasiveness of wireless Internet communications, and the ubiquity of connected personal devices have led to exponential growth in the capture and availability of data. *Big data* has become a buzzword, but the term now truly represents a rich stream of both private data and open data that together propel digital transformation. However, some companies say it's not immediately obvious how to best use big data to full advantage.

At one German retail and wholesale group, a sharp drop in profit created an urgent need to halt the decline, to stabilize, and to develop an action plan for growth. The company was data rich but insight poor. It had collected and stored vast amounts of transaction-level data that could connect every purchase with its specific customer and individual stock-keeping units (SKUs), but it lacked the means to analyze large volumes of data and turn the information into action and results.

Through the use of powerful, cloud-based analytic tools and techniques to test hypotheses, the company gained a clear view of relative store performance across the estate, ranked customer segmentation by profit, took pricing actions for specific SKU groups, optimised promotion plans, and aligned a staffing model with simplified assortment. And it all took just eight weeks.

Harnessing data appropriately can help resolve other important business issues too, such as how to take advantage of the reinvention and disruption of traditional consumer-focused businesses.

A South Africa-based industrial and consumer products company underwent a long-term decline in profit as its business-to-business customer model

gradually disappeared. It had been a high-cost, go-to-market model more suited to an earlier style of business. Nimbler rivals were successfully poaching customers from the company's business-to-consumer market by using mobile Web technology and low-cost go-to-market approaches.

The company was gripped by an inertia characterized by an institutional unwillingness to accept the new commercial reality and adapt its business model. When a close analysis of data revealed the true cost of serving each customer, revealing that about 20% were actually eroding profit, the much-needed culture change began.

Once management was on board, the company implemented a turnaround plan consisting of:

- An enhanced Web shop with mobile support and an active campaign to transition business-to-consumer customers to the digital platform;
- Enhanced digital marketing capabilities to exploit insights gained from Web data;
- A new, low-cost, agent-based retail network fully integrated with the Web channel; and
- A lower-cost, sector-focused, go-to-market model that diverted costly resources to focus on higher-growth, business-to-business areas.

The effects of the transformation included lowered costs through reduced head count and significantly improved earnings before interest, taxes, depreciation, and amortization (EBITDA).

## PROMPTING NEW DIGITAL REVENUE STREAMS

Consumer commerce has transformed by means of the always-on interconnection of current computing. The most obvious example has been the rise of mobile e-commerce, caused by smartphones' rapid

penetration and the high-speed mobile Internet. But mobile e-commerce is also enabling companies to expand their scopes, diversify their revenue streams, and carve out new market opportunities.

A United Kingdom–based hospitality company's aggressive growth goals included doubling the size of a new vending business unit and expanding internationally. But to create the right operating model for delivering on the goals, the company first had to get inside the data and understand the profitability of the existing automated platform and the operational complexities and costs it would take to serve.

Armed with data-derived insights, the company defined an operating model that would support profitable growth as well as digital innovation. It created a connected digital platform, with vending and IoT technology suppliers and an information technology (IT) management team.

The new platform enabled real-time online interactions with vendors, partners, suppliers, and customers, thereby growing sales and reducing costs to serve.

### **REDUCING COMPLEXITY THROUGH DIGITAL AUTOMATION**

Organizations across various industry sectors are automating business processes and integrating applications so as to reduce time to market and rationalize operating costs. Managers, operators, and engineers are always looking for ways to automate processes through digitization whether it's for robotics in retail and manufacturing, for control systems in engineering, or for tailored linkages between disparate IT systems.

As an example, a global technology services company that was facing losses in market share and diminishing operating profit had to make a radical change to simplify the business. A carve-out was indicated for halting a negative spiral of uncompetitive pricing, low win rates, head count reductions, and lower revenue and operating profit. Management agreed that reorganizing into two distinct businesses focused on high-value, high-growth services business, and commodity services was necessary.

The success of the new units depended on maximizing employee redeployment and minimizing overhead. Open data and automation techniques

were needed to develop a tool that would accelerate the placement process and create a competitive advantage over other services companies while heavily reducing overhead requirements.

Those techniques included advanced Web extraction and text-mining tools from multiple, disparate systems. The techniques were applied to identify the skills and technologies in demand across job markets and were then combined with a matching algorithm that generated best-fit job matches for each employee by matching employee attributes with the requirements of each job, including such criteria as the job's role, technology needs, location, languages, and relevant industries.

The newly carved-out business, with that automation architecture at the centre, performed way beyond expectations. It is now contributing significantly increased profits to the parent company.

### **PROTECTING DIGITAL ASSETS**

In the digital age, technology both enables and propels growth, which means technology must be safeguarded from the very top level of a company to its lowest-level employees.

Companies as diverse as Ashley Madison, Sony, and TalkTalk have endured real commercial consequences and reputational damage from cyberattacks.<sup>2</sup> No company can ever eliminate the possibility of attack or remove all of its data vulnerabilities. However, company approaches to cybersecurity and preparation for inevitable cyberattacks can make the difference between successful risk management and catastrophe.

A financial services organization that was developing a global strategy to mitigate financial, reputational, operational, and compliance business risks wanted to (1) understand how the new digital age had changed its risk profile and (2) learn how to respond in the event of a cyberattack.

The organization assessed cybersecurity risks across the entire supply chain, covering IT, communications, and business environments. It identified critical areas where cybersecurity transformation programmes were needed, and it prepared senior leaders to respond to a cybersecurity crisis through technical, legal, insurance, financial, and communications interventions.

<sup>2</sup> Alexander Sword, "Rebuilding Brand Trust: TalkTalk's Path Back from Cyber Attack," Computer Business Review, January 22, 2016, <http://www.cbonline.com/news/cybersecurity/data/rebuilding-brand-trust-talktalks-path-back-from-cyber-attack-4790671>.

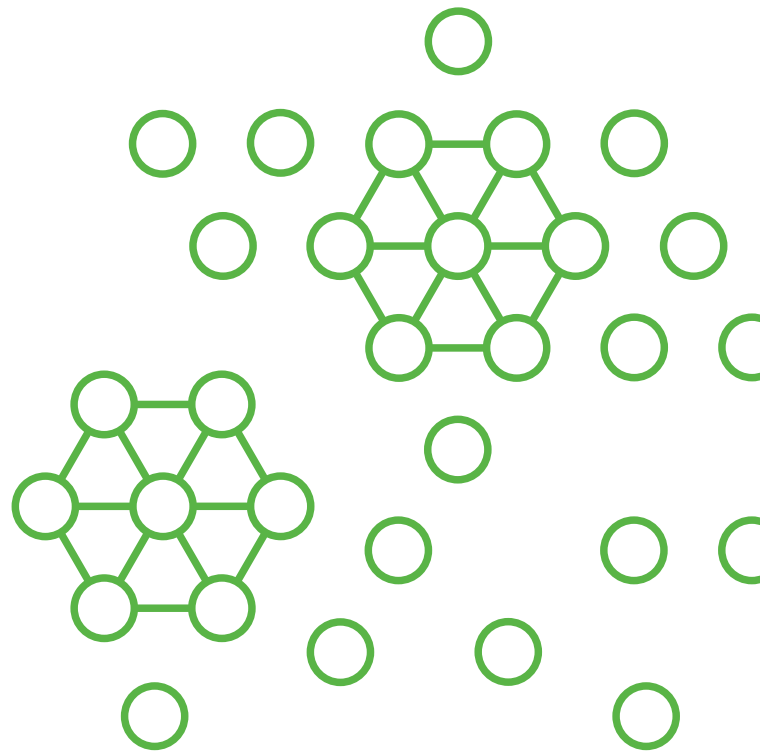
The cybersecurity risk management framework the organization developed became a core part of the overall enterprise risk management framework. That cybersecurity framework helped reduce costs through the streamlining of fundamental security management practices, which lowered the organization's business insurance premiums.

Digital transformation now contributes to outperformance and will most likely soon become a requirement for survival. Even at businesses still comfortable with established operating models, beginning the transformation process can yield long-term sustainable results that outweigh short-term upheaval. **A**

## **SURVIVING—AND THRIVING**

The foregoing examples show that consumer companies once rooted in more and more antiquated business models can survive and thrive in the digital world by:

- Using private and open data to help discover meaningful, useful business insights;
- Harnessing the power of mobile computing and the IoT to grow revenues and reduce costs;
- Taking a mature approach to cybersecurity;
- Replacing established operating models so as to reduce costs and better serve new customers;
- Taking an integrated approach to serving customers by way of a combination of digital and traditional platforms; and
- Challenging the preconceptions of which tasks can be automated.



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