"Three Major Pitfalls" and Strategic Research in the Digital Transformation of Consumer Goods Enterprises

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Abstract: Digital transformation has become an important strategy for the development of consumer goods enterprises. However, during this process, they may face three major pitfalls: blind digitalization, mismatch between infrastructure and operations, and misunderstandings and challenges in organizational reform. This paper analyzes the reasons behind the formation of these pitfalls through literature and case studies of digital transformation in consumer goods companies, proposing corresponding strategies. To avoid these pitfalls, consumer goods companies need to set clear and quantifiable business goals, select appropriate digital applications based on their actual situation, and conduct top-level design and planning to build a closed-loop business using underlying data. Furthermore, talent introduction and cultivation must be strengthened to establish a digital culture.

1. Research Background

With the rapid development of information technology and the rise of the digital economy, consumer goods companies are facing tremendous pressure and opportunities for digital transformation. Digital transformation is the process of using digital technology and data to drive business innovation and change, aiming to improve the efficiency, innovation capabilities and customer experience of companies to adapt to changes in the market and technological environment[1].

There are three main elements of digital transformation: strategic business applications, tactical technology infrastructure and executive organisational talent, none of which is essential. Strategic business applications refer to the application of digitalisation in business scenarios, such as digital marketing, digital product innovation, etc. Tactical technology infrastructure refers to the solutions and data architecture that companies need to build in order to implement digital applications. Executive organisational talent includes how the internal and external leads for digital transformation are selected and the investment in digital culture and capability building across the company.

The importance of digitalisation has been highlighted by the new epidemic from 2020 to the present, with 73% of companies surveyed putting digitalisation at the top of their boardroom agenda. However, it is worth noting that despite the strong commitment to digital transformation, 76% of the companies surveyed said that the results of their digital transformation projects were mixed when it came to results and performance, 20% "did not achieve 50% of the desired results" and only 4% successfully completed or exceeded expectations[2]. The main reason for this is that companies often fall into the three main traps of digital transformation.

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2. Three Pitfalls of Digital Transformation for Enterprises

2.1. Strategic Business Level: the Blind Digitalisation of the Enterprise

Companies often follow the trend of "digitisation for the sake of digitisation", lacking clear, quantifiable business objectives based on their own situation, for example, by following the digital applications of industry leaders or being threatened by new applications developed by competitors, and then immediately following the same rules without considering their own situation[3]. These companies generally put the cart before the horse, believing that they can break through growth bottlenecks simply by undertaking digitalisation projects, rather than recognising that digitalisation is a tool to enable business transformation. To achieve growth, business transformation is necessary.

In addition, various departments of the company are eager to see the results of digital transformation, and are eager to launch scattered applications, such as opening multiple WeChat public numbers and communities for each of its brands, covering brand building, private domain sales, membership management, etc. However, these scattered applications lack top-level design and planning, and have low connectivity and scalability, and it is difficult to connect the underlying data in the future, so they cannot effectively build a business closed loop to enable the company's business growth. However, these scattered applications lack top-level design and planning.

2.2. Tactical-technical Aspects: the Mismatch between Infrastructure and Business

Over the past two decades, China's economy has taken off and most private enterprises have expanded their businesses, seizing the opportunity to become stronger and larger. Along with the continued expansion of business scale, many enterprises have a weak information technology foundation, with imperfect ERP systems, and have yet to integrate business and finance, and have yet to develop a data-based decision-making mindset. At this time, if leaders still focus only on the front-end digital applications that generate business value, and continue to ignore the middle and back-end infrastructure, it is easy to form data silos, i.e. it is difficult to connect the application data of each front-end, which is not conducive to business growth. At this point, if leaders continue to focus only on the digital applications that generate business value at the front end and continue to ignore the middle and back office infrastructure, it is easy to form data silos, i.e. it is difficult to connect the application data across the front ends, which is not conducive to business growth.

Contrary to most private enterprises, multinational companies are generally configured with globally deployed IT infrastructure and usually have a sound technology base. When implementing digital transformation in China, although some multinational companies also invest heavily in IT infrastructure upgrades and manpower upfront, the technology infrastructure is less relevant to the real business needs and the scale of the infrastructure often exceeds the actual business needs, resulting in wasted resources.

In China, the consumer goods and retail sectors are at the forefront of digitalisation in the world, and leading Chinese companies generally want to build their own, rather than leverage solutions from third-party platforms, for their digital transformation. In this context, some leading companies even have the ambition to develop many industry applications in-house and then export them to other companies in the industry, only to end up facing the embarrassing situation of investing heavily and having no one to pay for them.

2.3. Executive Talent Level Pitfalls: Misconceptions and Milemmas of Organisational Change

The person responsible for digital transformation and external partners are critical to the success or failure of the transformation. In past digital transformation events, many companies saw it as a technology transformation and therefore assigned a technology leader, such as a CTO (Chief Technology Officer), to lead it. However, digital transformation is really business transformation, where the CTO has deep technical skills but limited day-to-day involvement with the business and does not necessarily have deep insight into what the business needs. In addition, external partners are often chosen to specialise in technology solutions, but do not have a deep understanding of the dry business and are limited in the business relevance of the solutions they deliver.

Many companies believe that digital transformation is only a matter of building business

applications and systems and that it is successful. In fact, the most difficult and important part of digital transformation is the transformation of the business operating model and organisational culture. Many companies fail to establish a paradigm shift and build capacity for digital insight and decision-making at a corporate level. For example, during the digital transformation phase, the company takes on a lot of external talent, but the integration of the old and new teams is problematic, and the team OKRs or KPI settings do not change, which ultimately leads to digital transformation results that fall far short of the expected goals.

3. A Study of Strategies for Digital Transformation

To avoid falling into potential pitfalls, digital transformation should follow a business-led, infrastructure-parallel, organisation-empowering approach.

3.1. Digital Transformation to Enable Business Orientation

The ultimate goal of digital transformation is to create value for consumers, and clear strategic guidance is the cornerstone of digital transformation. With a "consumer-centric" approach, companies should define their vision and business goals for the next five years, and in doing so, explore how digital transformation can enable them to achieve their business goals. Then, based on the business objectives, companies should identify the applications and transformation initiatives that are most valuable for business growth, prioritise them and map out the implementation path[4].

3.2. Building Technical Solutions for Application Requirements

After the business-oriented identification and prioritisation of valuable digital applications, successful transformation cannot be achieved without the necessary technology infrastructure, and companies need to build technology solutions for the applications they need, i.e. infrastructure in parallel. In the global study's ranking of drivers of digital leadership, "technology infrastructure" has jumped to second place in 2020 compared to 2018, after "rapid decision-making", as a key driver of digital transformation[5].

3.3. Leveraging Organisational Empowerment for Transformation

Internal leads and external partners for digital transformation are one of the key decisions that will determine the effectiveness of future transformations. The following 12 words can be used as a metric for internal and external milli-heads: "Understands the business, cross-platform, can change and has stepped through potholes". The purpose of digital transformation is to empower multiple growth, therefore, the level of understanding of the business should be the most important metric. Digital transformation is a hands-on project for the CEO. We have found from the transformation experience of many outstanding multinational enterprises that the CEO usually assigns the CGO (Chief Growth Officer), who is responsible for the business, to take the lead and work closely with the CDO (Chief Digital Officer) to share the responsibility, or the CDO of the enterprise to take the lead, but the CDO should have rich experience in hands-on business, and for external consulting service providers, they will choose those who are good at both For external consulting service providers, they choose partners who are both good at corporate strategic planning and can coordinate resources for implementation.

Finally, building a digital culture is also critical to the effectiveness of the transformation. For example, sales teams should not only focus on achieving sales, but also on ensuring the smooth flow of data back to retailers and distributors. Customer and consumer-facing teams should focus on data collection and analysis, forming kanban boards to guide their business and gradually creating a culture of "data-based" decision-making across the organisation.

4. Conclusion

In conclusion, digital transformation has become a critical strategy for the development of consumer goods enterprises. However, this process is full of challenges. This paper has identified

three major traps that consumer goods companies must avoid in order to achieve successful digital transformation. The first trap is the blind digitalization of enterprises, which can lead to a lack of focus and inefficient resource allocation. The second trap is the mismatch between infrastructure and business, which can result in technological solutions that do not meet the needs of the company. The third trap is the misunderstanding and difficulty of organizational reform, which can hinder the adoption of digital technologies.

To overcome these traps, this paper proposes several strategies. First, consumer goods companies need to set clear and quantifiable business goals and select appropriate digital applications based on their actual situation. Second, top-level design and planning are needed to get through the underlying data and build a closed-loop business. Third, consumer goods companies should focus on talent training and introduction to build a digital culture that supports digital transformation.

The literature study and case study analyzed in this paper have provided valuable insights into the reasons for the formation of these traps and the strategies needed to avoid them. By following these strategies, consumer goods companies can achieve successful digital transformation and improve their competitiveness in the market. The digitalization of consumer goods enterprises is a complex process, but with the right approach and strategies, it can be a transformative and rewarding experience.

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