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LONELY AT THE TOP IN TROUBLING TIMES

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Lonely at the top in troubling times

Many great leaders have candidly admitted that the top job gets lonely at times. The feeling is exacerbated during volatile, uncertain and complex periods - after all, the buck stops here and the boss is paid to deal with challenges, right? For many leaders of international consumer companies in China, the current situation feels unprecedented, fraught with risk and consequences. If you are feeling that way, you are not alone - but what should be done about it? In my experience, this is not the time to sit on your hands until things settle down. It is the time to get on

the front foot, and there is plenty to be done.

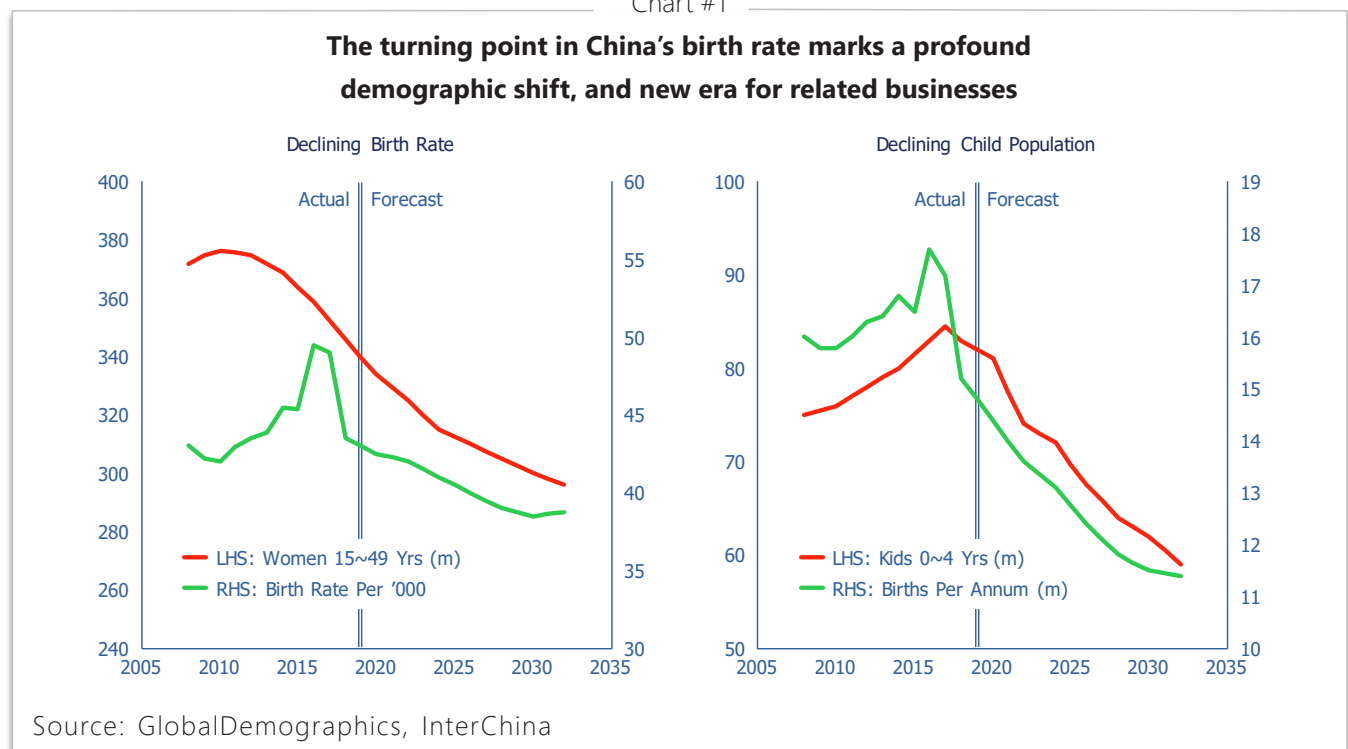
A sense of crisis looming

If you are a leader in China today, perhaps especially in the consumer space, you might be experiencing a feeling of isolation or even desolation. The top concern is consumer confidence and spending, with reported data showing a sustained slowdown in retail sales growth. This is not only being felt in goods like smart phones and appliances, but also in experiences such as movies and tourism. Young millennials are also pushing back on bigger decisions, namely buying

homes and cars, and even delaying getting married or having a child.

During my time in China's dairy industry, the most fundamental change that the infant formula industry had to face was China's collapsing birth rate. Despite the removal of the one child policy, the number of baby births in China declined from 17.2 million in 2017 to 15.2 million in 2018, down a massive 12% year-on-year. For those in the industry, this alarming trend is likely to continue, caused by the decreasing number of women entering the fertility age, combined with lifestyle changes. The birth rate is just one of a number of ongoing demographic shifts with profound implications.

Chart #1



This sits in the wider context of weakening economic indicators. Experts have been forecasting a recession in the US since 2018, although the economy has somehow remained resilient. While GDP growth rates have slowed in China, they are still healthy compared to the developed world. Nevertheless, the signs on the horizon are ominous. Recent upheavals in IPOs, with WeWork, Juul and Oyo in international markets, and Xiaomi, Puppy Electric Appliance and Panda Dairy in China,

are an indicator of investor risk appetite waning. And inventories of many consumer goods companies in China are moving up beyond historical or comfortable levels, such as in imported bottled wine, clothing and domestic appliances.

Exacerbating matters is the rising tension between Washington and Beijing. The trade war, with its tariff hikes, black lists and currency movements, is increasingly straining and disrupting international supply chains. For example, where Chinese

tariffs on US food imports have increased threefold over the past 12 months, supply chains have resorted to establishing an intermediary processing step in Southeast Asia to circumvent them. Meanwhile, US consumer companies that bend to Beijing's will to avoid losing access to China's market, are increasingly facing a political backlash back at home. The NBA, following the expression of support for Hong Kong's protestors by the manager of the Houston Rockets, now know what that feels like.



Beams of light in the gloom

However, all is not doom and gloom. The party is not yet over (although the round of free drinks probably is!). Several trends highlight opportunities for those organisations willing to be agile and move out of the comfort zone.

The health & wellness space is seeing robust growth across all segments of goods (e.g. outdoor apparel,

health foods, personal devices) and services (e.g. wellness programs, fitness gyms, beauty treatments). For example, the fitness app Joyrun now has over 80 million users. Combined with the burgeoning elderly Chinese population (~250 million people aged 60 or above), that are affluent and willing to spend to improve their lifestyles, these offer big markets. The advent of digital technology, IOT and access to data, allows businesses to address consumer needs faster than ever, with fewer barriers to entry.

Millennials are increasingly looking for sustainable solutions and willing to pay a premium. Ever-increasing international travel is also driving demand for premium products (e.g. cheese), services (e.g. Airbnb) and experiences (e.g. cruises). The population of pets and the related industry has seen remarkable growth as Gen Z prefer to have feline friends than to bring up children in a highly competitive social environment. The pet industry in China is now worth USD 28 billion, catering to 100 million pets.



The Joyrun Pink Beauties Run, a marathon organized by the fitness application Joyrun

Navigating your way through

If you are a leader in your China organization, how are you supposed to navigate through these troubling times? Your previous strategies and plans may not be fully relevant anymore, but the uncertainties make it difficult to set new directions. From my experience, the better approach is still to be proactive. Would you rather wait to find out, while others prepare themselves or make moves? Instead, this is the time to plan, to communicate, to act.

Here is my 10-point checklist, built from real world leadership experience, that could form a useful guide:

1. Define your goal based on your organisation's real appetite. Set a clear flag in the sand, where you want to be in 2~3 years from now (any longer is crystal ball gazing). For example, returning to the infant nutrition category and its declining user base, would you (a) invest to gain value market share in a stagnant/premiumising market (b) cash out/

partner and diversify your portfolio to faster growing segments (c) be defensive and manage for cash/profit. This needs to be a conscious decision; doing nothing different will probably be fatal.

2. Build scenario-based plans.

There is no one future in China for strategy planning. A good solution is to develop a few diverse scenarios (as a starting point, try a base case, optimistic case, and pessimistic case), and then build plans around them. Each scenario should address the key success factors for your industry, as well as the main market assumptions. In the consumer space, these would often include demand dynamics, regulatory requirements, likely competitor moves, raw material availability, as well as currency movements and tariff rates. Subsequent plans for each scenario should clearly define the resources required for each scenario, taking into account your goal from #1 above. Companies often make the mistake of not translating a stated goal into the required resources, which is critical to ensuring you put your (headquarters) money where the mouth is. The

exercise is not as detailed or accurate as an annual budget, and in fact should be built with a modular, flexible tool to allow for changes in assumptions (could be a macro based in Excel).

3. Stress test your plans through war gaming.

A competitor wargame is a great way to get under the skin of your competition and try and outmaneuver them in advance. Typically lasting 1~2 days, such an exercise involves participants from across functions and even external guests such as key accounts, strategic suppliers or agencies. Different teams take on the task of representing select competitors, and most international consumer companies will now need to include Chinese players in the mix. In the FMCG space, for example, Chinese brands accounted for over three-quarters of market growth in each of the past 3 years. The game is run over a couple of rounds, each representing a time period, developing tactics based on market intelligence and insights. If facilitated well, everyone gets energized and aligned behind a common action plan.

4. Actively explore partnerships.

Downturns are a time to consider the formation of partnerships – players might be more willing to engage, valuations could be attractive and some may just see the uncertainty in a different light. Such partnerships could range from an acquisition of a local brand, to divesting equity in the China business to a Chinese investor (see InterChina’s article “China Rethink” from October 2019). For many traditional consumer players in China, this could be the right time to create or join an innovation ecosystem. The pool of tech-driven consumer start-ups is rapidly expanding in China, bringing new products, service and business model opportunities. In the past year or so, both Nestle and Shiseido have opened innovation centers that will work with start-ups on better meeting local market needs.

5. Grasp the low hanging fruit.

Growth does not always need

to come from the next product innovation. In fact, the chances of success with product innovation are probably still lower or slower in China than through expanding availability and brand awareness. Building effective distribution is not sexy, but often offers pockets of growth. The big opportunity for consumer companies is winning in the lower tier cities, and again, partnering or creating ecosystems could be an effective solution to balance cost to serve and coverage. To form the right RTM, potential partners could include Alibaba’s LST or JD.com, which are using online platforms to disrupt and modernize the distribution of consumer goods.

6. Build Capabilities & Culture.

When the going gets tough, training and recruitment budgets are often one of the first to be slashed. Given the struggle for talent in China, smart players can use this opportunity to pick up good profiles from the market,

and continue to invest in building selective capabilities such as digital marketing and data analytics. This can happen alongside retrenchment or outsourcing of some functions, and sends a message to the organization that opportunities for personal growth exist, especially for those that embrace speed and disruption. Internal incubators and accelerator programmes are another great way to channel agile innovation. In order to compete effectively against insurgent domestic brands, international companies need to have a clear ‘China for China’ approach to running the business.

7. Prioritise the above. From #1 to #6 above will emerge a host of ideas. It is useful to list them all, although of course not everything is feasible. Creating a transparent list and reviewing it with your leadership team will help strengthen the plans, bring in diverse thinking and drive ultimate execution.

8. Communicate strategically.

Managing the expectations of stakeholders is crucial on this journey. I recently heard the China CEO of an MNC lament that his global head didn't want to hear excuses about missed results, and just wanted the team to hit the numbers. I've found that organizing intimate roundtables with other China CEOs from adjacent consumer sectors for HQ stakeholders to join is a great way for them to hear from others in the same boat.

How do you engage employees to remain motivated in troubled times? Communicate yes, with the senior leadership singing from the same hymn sheet, adjusted for relevant audiences and delivered with an authentic sense of purpose. Their role in the business is critical here, to ensure that messages and behavior are quickly cascaded.

9. Work with a coach and/or an advisory board.

There are plenty of executive coaches out there, although finding the right one often requires a few sessions together to build the right chemistry. Another option could be to work with an advisory board, which could be appointed to your organization, but is essentially your personal sounding board. I have seen such advisory boards comprised of both international and Chinese executives, and there are now a few generations of Chinese that have retired from the most senior positions of consumer companies in China. You could also join a relevant community of leaders. Whichever option you choose, requires an investment of time and discipline, however the rewards can be fulfilling.

10. Spend time with family.

At the end, there's nothing to beat loneliness than spending time with your family. A Harvard study began tracking the health of 268 Harvard students in 1938 during the Great Depression and has continued to this date, to understand the triggers for a healthy and happy life. The surprising answer - better quality relationships lead to longer and healthier lives, while loneliness kills. Often, your life partner knows you best and therefore is your best coach - confiding in him or her can be valuable, besides doing wonders for your relationship. And for dog lovers, well that works too, just that it's more of a one-way street!

**Don't be lonely –
act now!**

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Rahul Colaco is a senior leader from the global consumer goods sector, based in Shanghai. He has over 20 years of FMCG experience in leadership and functional roles, including with Friesland Campina and Unilever, in both emerging and developed markets across Asia, Africa and Europe. His key focus has been building international organizations with diverse teams to deliver results in challenging business environments.

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