

# COVID-19 Private Sector Group



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Memo from the Fourth Meeting on 15 April 2020



The COVID-19 outbreak has made enterprises more aware of the need and urgency for digital transformation. It has forced those that were reluctant or slow in making changes to speed up their digital efforts. However, the digital transformation of businesses means more than just technical or technological issues, it represents a systematic undertaking that involves technological applications, business management, organisational changes and operational model changes. This is why the road to digital transformation is not always straightforward. On 15 April, the COVID-19 Private Sector Group (CPSG) held their fourth meeting focusing on new digital capabilities in a new normal landscape. Participants discussed and shared their experience on, among others, developing their digital transformation strategy, selecting the most viable digital paths and the organisational capabilities for a digital change. The meeting was organised and hosted by PwC as the group's secretariat, and highlights and insights of the meeting have been summarised as follows:

## I. Digital progress comes in three stages of digital transformation

From information to digitisation to being AI-empowered, enterprises in different industries will undergo different stages of transformation as they accelerate their digital endeavours. When formulating their digital strategies, enterprises need to assess both their own development as well that of their industry. This will ensure that they are precise and relevant. The CPSG members shared their insights in regards to the three stages of digital transformation and their respective characteristics.

**Digitisation.** This stage focuses on converting non-digital information such as samples, documents, check-in forms and product descriptions into digital data in consistent formats so that they are ready for integration and processing. Within many big enterprises, product information is often maintained by different functional divisions, stored in different computers and managed by different people. You will find that the information is often dispersed and fragmented. The first step in going digital is turning all hard copy information into data that can be circulated, shared and analysed.

**Digitalisation.** Through virtual simulations, digitalisation allows business enterprises to deploy digital tools to connect different data pools. It works to envisage and emulate their productions and operations, optimise and empower management by enabling them to make more informed decisions. There are different types of data that can be used, e.g. performing cross analyses and presenting findings to managers to aid them in their decision-making. This will help them to reprioritise and optimise the use of resources in different production units as well as marketing and sales.

**Digital transformation.** At this stage, data has now become fully integrated. Systems are fully connected and AI-enabled decision-making has been achieved through an automated management system. The AI system can autonomously make better and more informed decisions than that of the human mind. In addition, there will also be an improvement in efficiencies as well as business gains. AI-enabled decision-making allows the enterprise to create new business models, and when that happens, it results in the business' ability to complete its digital transformation. For example, a company that would traditionally only sell building materials is able to evolve into a wider home decoration company through internal efficiency improvements, market expansion and supply chain optimisation. Using digital strategies to help increase their new business investments and by developing a digital business model transformation, they would have thus completed a successful digital transformation.

## **II. Learning from others and identifying key points to start your digital journey**

Within an organisation's internal departments, be it marketing, production or business management, each department will have different digitisation needs and focuses. Business to consumer (B2C) companies also differ from business to business (B2B) companies when it comes to their priorities for digital transformation. The CPSG members shared their experience in this area.



**Within a digital journey, being able to adapt will be key in your transformation.** Out of the many factors in production, an enterprise needs to be strategic in selecting a function that has the greatest potential to adapt and to begin its digital transformation journey. This means being able to establish factors within production that can best adjust to time, place and people. They should then be able to focus on how to best optimise production while aligning demands and supply in order to improve operational efficiency. The CPSG members shared stories about restaurants that had attempted QR code menus to save labour costs but found that orders had dropped due to lack of recommendations from the service personnel. This is an issue that can be improved through a consumer behaviour data analysis. The data would allow for personalised menus to be designed with relevant information delivered to the consumer. In this scenario, the restaurant made a digital change but failed to adapt to customer needs which could have brought about greater value.

**Marketing can be a great route when initiating your digital journey.** As internet-based consumption matures in China, online marketing has frequently become a top go-to choice for a majority of B2C enterprises. At the same time, the development of online marketing has also made marketing-related data (e.g. consumer behaviour data) and digital marketing talents more sought after. In addition, digitisation within marketing can yield quicker results. If companies look to new sensors and visual identification tools, the costs will be higher along with a longer processing time to receive results. In general, B2C enterprises are able to move faster in digitised marketing. They can make more strategic decisions to deploy advertisements, make estimations as well as strategic adjustments in a matter of seconds. Recently, the uptick in social media, with methods such as live webcasts, has helped to facilitate another upgrade in digitised marketing. When we look at the future of digitised marketing in B2B enterprises, the field looks highly promising.

**Digitalisation should differ based on the degree of production and operations that can be digitised (Industry 4.0), it needs to be analysed carefully by each enterprise.** The decision of whether or not to digitalise a business production depends heavily on its format. One of the key features of digitalised production is the ability to be agile. (i.e. the ability of an enterprise to tailor its production lines to customer needs without additional costs) Another feature needed is a cost-efficient production, which refers to the ability to produce a constant flow of products with minimal energy and materials. Some enterprises have implemented large-scale manufacturing shaped by customer-driven demands (the customer to manufacturer, or C2M, model), and have achieved considerable benefits in saving costs and improving on their customisation. By being able to attain both of these agile features, manufacturing and sales can then be connected through data interfaces and will also be able to generate data flows to optimise operational management. This will lead to the digitalised integration of production and operations.

**Digitalisation can only deliver true potential with an intelligent loop of perception and decision-making.** Investments in digitalisation are generally quite substantial. Many enterprises deliberate the amount of money they want to put in and what benefits and value that can be expected. As noted by the CPSG members, the application of digital technologies can only be seen only during the decision-making stage. Similarly, the evolution of human thinking and decision-making follows perception, understanding and analysis. Through further analysis and repetition, we can improve our skills, and ultimately deliver value, thus closing the loop. Before digitalisation can truly deliver itself, an enterprise needs to make a serious effort in each area that they wish to digitalise to include perception, understanding, analysis and decision-making. This will form an intelligent decision-making closed loop, and only then will you achieve greater benefits (an intelligent decision-making closed loop can be built for one business line or a single product). Without data aggregation, analysis and feedback to facilitate process optimisation, there cannot be an intelligent loop. This can also be supported with intelligent equipment and devices to generate more data flow.



### **III. How to determine your digital team based on your core competitiveness factors**

Many traditional industrial enterprises have seen the benefits that digitalisation and AI-assisted transformation can bring to the growth and development of businesses. As witnesses to this growth, they are determined to increase their technology investments within their own business and initiate AI-assisted growth. However, due to a lack of understanding in emerging technologies and high-tech talent, they are concerned about the potential frustrations that they may encounter in their digital journey.

The CPSG members offered specific recommendations on whether an industrial enterprise should build their own digitalisation team or seek external third-party support in launching their digital strategy. An enterprise needs to approach this stage in their business by focusing on how to best build its core competitiveness. For the purpose of digital transformation, the time spent sharpening skills or tools can never be wasted. Digital technologies are means that can empower an enterprise and improve its core competitiveness. For example, grindstones are typically applied to sharpen a knife and may be the core product or service of a business. However, the business would need to further adjust itself by learning how to make better “knives” that may not need grindstones. This will help to improve its core competitiveness in the knife making business.

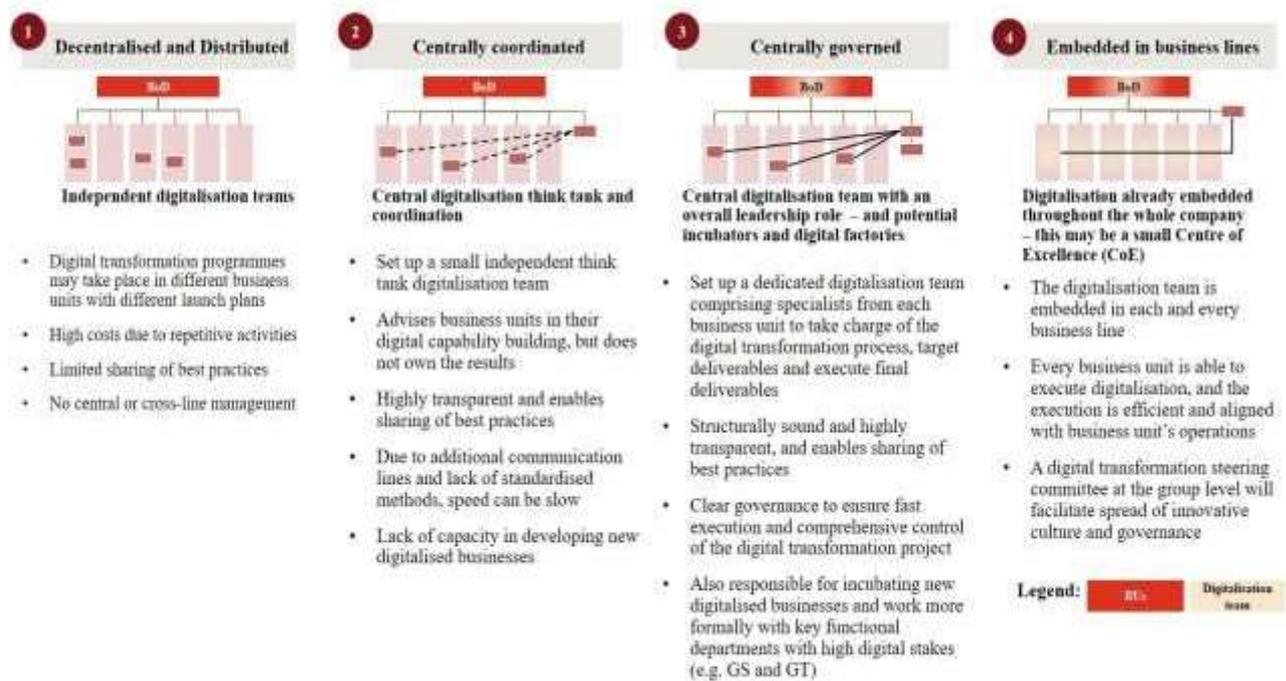
If an enterprise undertakes the task of researching its services in relation to digitalisation or AI technologies, it should strengthen its technological workforce by retaining top-tier AI specialists that can provide a more comprehensive and forward-looking planning. If an enterprise is mainly engaged in manufacturing, it may consider working with external tech teams. It is challenging to hire top-tier data or AI specialists to conduct specific application researches in a production environment. Additionally, integration between high-tech specialists and product management teams may also be hard to achieve. Recently, there have been third-party digitalisation services that are beginning to emerge, and their professional capabilities and standard of practices have also been improving. Working with third-party professional teams may be helpful in gaining insights on the digitalisation practices in the industry as well as other market competitors by reducing unnecessary mistakes.

#### **IV. Digitalisation can be achieved by building a structurally agile organisation as well as new capabilities**

In this digital era, there are many challenges that enterprises face that surpass digital technology and the ability to apply these technologies. More than 60% of business capabilities rely upon how efficiently an enterprise can develop and manage its businesses in a digital environment. However, the building of new capabilities is confronted with many challenges, including the identification of core talents and a sound organisational environment for talents to prosper and deliver value. The CPSG members shared their experience in building more agile organisations and empowering their workforce.

**Build a structurally agile organisation in line with your core competitiveness.** An agile organisation is critical to the implementation of your digital strategy. In line with its core priorities, an enterprise needs to break down its organisation into modules and reassemble their departments for maximum impact and agility in line with its core capabilities. As it is very challenging to break down an organisation completely, adopting an 80/20 principle will be key. This means that an enterprise should make 20% of key positions and talents agile, while adopting a ‘follow-the-example strategy’ for the rest of the 80%. In the course of reassembly, an organisation can refocus its core capabilities, redundant modules may appear and can then be eliminated.

**An enterprise needs to select the most suitable business model to drive its digitalisation in line with the “maturity” of its digital development. It will be important to establish corresponding roles and responsibilities, policies and procedures for promoting digitalisation and incentive measures.** There are four major organisation types: 1) decentralised and distributed 2) centrally coordinated 3) centrally governed, and 4) embedded in business lines. For each organisation model, the composition and priorities of the digital team are different (as shown in the figure below). For the purpose of driving its digitalisation strategy forward, an enterprise must set up an independent digitalisation steering team which must also match the maturity of the organisation’s digital maturity.



**An enterprise needs to build a trust system to differentiate and facilitate the organisational change in the direction that it envisions.** When driving its digital transformation, it is common for an enterprise to encounter resistance from its people due to the company's culture. This will call for a multi-tier trust system for different groups of people.

- The 2% of top-level core management needs personal trust. Top-level management members need to be united in their ideals and beliefs in order to work together to achieve the enterprise's digital transformation vision. They need to be able to act as solution architects and be able to analyse and improve their core competencies in every phase of the transformation. From pre-implementation project assessment to post-implementation review, the team would need to help the organisation to change in the direction needed to stay relevant.

- The 18% of key employees need structural trust. There will be a heavier focus directed to the improvement of core competencies, including leadership and systematic thinking. This is needed to measure up to the requirements of day-to-day operations and achieving true digital transformation. How the leadership tackles change in particular, should be incorporated as a key component in the people management philosophy. If an enterprise does not upgrade and adapt its people management philosophy, it will not be able to change its corporate culture, and it will be become difficult to establish the mind set to transform into a digital business.



•The rest of the 80% of the people need professional trust. It is key for them to comply with rules when it comes to digital transformation. A business will need secure system platforms to be able to connect resources and integrate internal data to be able to boost the efficiency of its business activities. This will help to facilitate the overall improvement of its business capabilities.

## **V. Responding positively to changes in roles and required skills when it comes to digitalisation**

As digitalisation deepens, there are growing concerns over the replacement of humans by robots. Many people believe that digitalisation or AI will cause a large number of people to lose their jobs. As the CPSG members have noted, digitalisation, or as it may be called the Fourth Industrial Revolution, is the way forward. It will continue to progress despite concerns over unemployment. Similarly, it will take a similar course when ownership reforms in state-owned enterprises in the 1990s caused a massive number of people to change their traditional roles or seek new employment. The digitalisation of an organisation has a core impact on employment and comes in the form of adapting new job skills and a shift in job positions. The urgency of a large number of data centres, for example, will increase the demand for electric power. The power industry will see an increase in employment due to the thriving demand for big data. The set-up of new business formats, such as internet-based sales and virtual classrooms, will see a demand for more people for planning and design courses, resulting in the uptick in employment for content designers and planners. Digitised marketing, has brought about changes in people and skills towards traditional offline marketing, and a demand for those qualified for online demonstrations and applications. This process of change represents the shift and upgrade of job skills.

The CPSG members are calling for every one of us to take action to embrace this change. In the digital era, you will either stay in the game or lose out, and it will all depend on whether you can truly adapt and master the changing job skills needed in the new age.

We would like to express a special thanks to the following special guests and representatives from the CPSG member organisations who shared their insights in the meeting:

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WU Minghui, Founder and Chairman, Mininglamp Technology

Johnny YU, Business Transformation, People and Organizational Management Consulting Lead Partner, PwC

