



How China's Consumer Goods Brands are using their existing technology to drive Customer Lifetime Value



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With high levels of competition, a dynamic technology environment and rapidly-shifting customer behaviors, China's Consumer Goods companies should be at the leading edge of innovation if they are going to perform. Having invested in tools and technologies to enhance the customer experience, the big focus today is on aligning and integrating their assets to drive a step-change in the way these companies create and maximize Customer Lifetime Value (CLTV). Here's what they are doing and how they are doing it.

China's adoption of ecommerce was inevitable. Even before the pandemic, China's rates of digital adoption and online shopping were on the rise. The lockdowns of the pandemic only accelerated the trend. Companies doubled down on their Direct-to-Consumer (D2C) investments. Already strong third party platforms rapidly started to dominate and shape consumer behaviors.

Two factors appear to be driving the rapid adoption of ecommerce in China. The first is accessibility; China's online retail leaders have been investing into infrastructure for years. Today, they can reach pretty much any location in China, no matter how rural or remote. The second reason is that payments are easy online; China's online payments systems are effectively linked to customer accounts, making payments fast and reliable.

The way people shop in China is changing. So, too, are their preferences. As we noted in a recent report on China's Luxury market,¹ young people are increasingly adopting an environmentally friendly lifestyle, for instance by shopping for vintage clothes and eco-friendly products. Brands are increasingly keen to address their customers' expectations around issues like ESG and climate change in order to capture a competitive edge in China.

¹ Luxury Redefined: Building trust with Chinese consumers through authenticity and integrity, KPMG in China, January 2023



Brands want more control over their customer interactions

While platforms gained market share during the pandemic, we are seeing many consumer brands in China invest into reasserting control over parts of their customer interactions. Significant investment is going into D2C models, social media channels and digital infrastructure. New technologies and tools have been adopted. And many executives are starting to talk about how they can influence and enhance Customer Lifetime Value (CLTV).

Customer Lifetime Value is not a new concept. Indeed, the benefits of strong CLTV are well known. Consumer goods companies with strong CLTV are better positioned to up-sell, cross-sell and engage their existing customers, leading to better margins, lower acquisition costs and reduced competition. They are better able to identify why certain customers aren't converting and, therefore, how to engage them. They are more focused on expanding their customer base with segments that deliver longer-term CLTV.

Consumer goods leaders also recognize that CLTV has become much more tangible and manageable. Over the past decade, companies have invested in a wide range of tools and technologies that can help them gain important insights into — and then shape — the customer experience. Many now have the technology and data they need to really start to shape and influence CLTV.

The problem is that — in many organizations — these technologies and data are often siloed within business functions or processes. This means that there is often no identified team or function tasked with taking a holistic view on how it integrates with other assets around the customer. Few companies think about how they can extract value from the data they are capturing across the enterprise in order to drive new growth. And that means valuable opportunities to improve marketing effectiveness — and thus CLTV — are frequently being missed.



Start with the need, not the tool

Indeed, the fundamentals of the CLTV formula are fairly straightforward and the math is well understood. $\text{Subscribers} \times \text{price} \times \text{units}$ gives you your revenue number. But it's how you influence the math of the equation using data science that creates the CLTV.

Rather than focusing on specific tools and technologies, I suggest that consumer goods companies should start by understanding exactly what they want to achieve and what drivers they should be measuring. Then it's all about integrating the data you have and using the technologies available to deliver on those specific goals.

When KPMG professionals work with consumer goods clients to enhance CLTV, we often start by capturing key data points, such as demographics and purchase history, that are already in their systems. Then we use a broad range of sophisticated Data and Analytics tools to mix and cluster the data into models that allow clients to identify those segments with the greatest and least CLTV potential.

Once target segments are identified, it's much easier to start to create the optimal customer personalization, experiences and interactions to drive long-term value. The important thing here is to not view the CLTV program as a series of goals and accelerators, but rather as a way to create and enable a data-to-results value chain (see chart 1) that encourages and facilitates value creation. It's not

something that can be done in a silo in Marketing or Sales. It requires a collaborative effort from the management, data team, marketing team, design team, IT team and others.

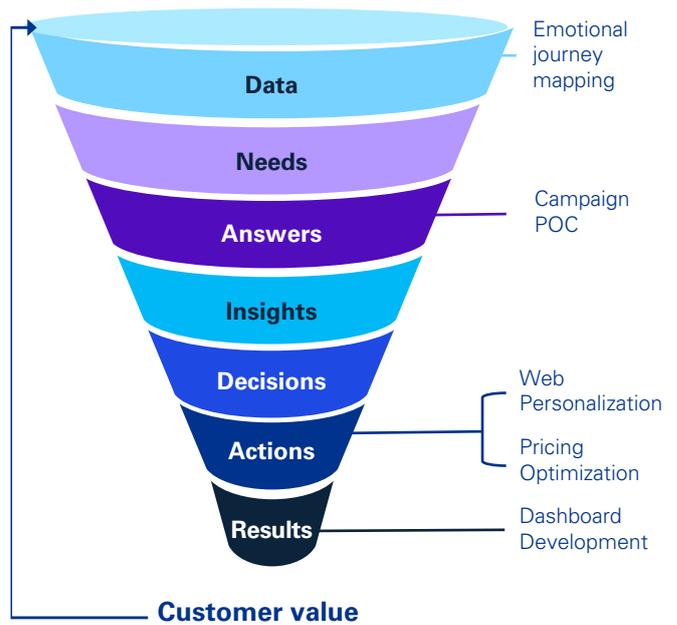


Chart 1

Source: KPMG China



Getting big benefits from existing investments

KPMG professionals recently led a Fortune 500 brand through a very similar exercise. We helped the business clarify what they wanted to achieve and what value accelerators they could leverage. We showed them how to use data science and models to identify 14 different segments — such as one-time purchasers, benefits-driven consumers, low-value long-term loyalists, high value potentials and price sensitive consumers — and then categorize them into the highest and lowest potential.

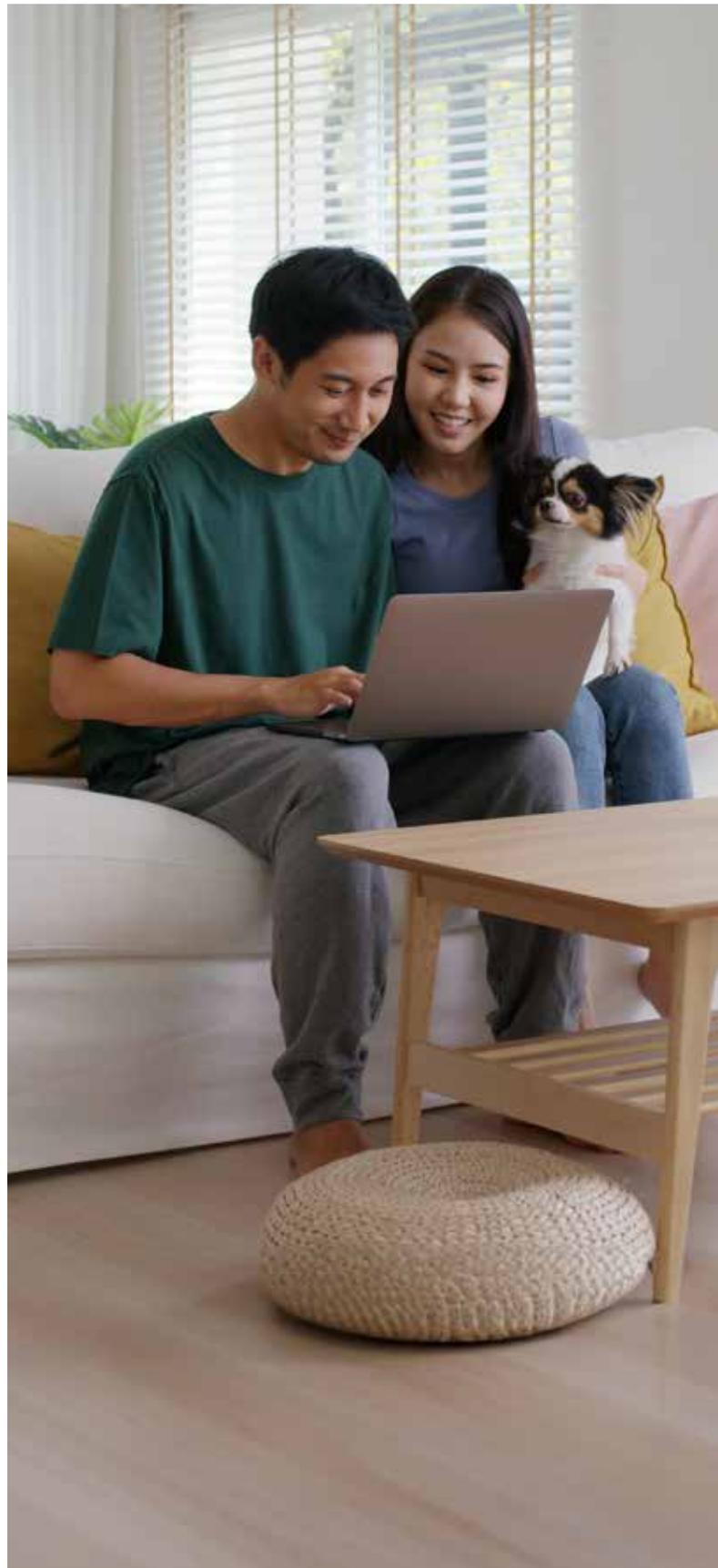
Then we helped the client use a cross-sell recommendation engine, an upsell recommendation engine, and a dynamic pricing engine. We used purchase date decision engines to align inventory and replenishing with anticipated demand. Then we worked with them to design targeted tactics by delivering effective and engaging personalized messages to key customer segments.

When comparing the key performance indicators of the groups of customers where personalization was used against those where it wasn't, significant and measurable results were found — sales uplift more than doubled, upsell rates were three times higher in the test group versus the control group, and conversion rates were four to five percent higher.

New strategies are emerging

What is clear is that China's consumer brands are focused on maximizing customer lifetime value. They have already invested in the infrastructure, tools and technologies they need to influence customer experience. Now they are focused on executing strategies that integrate it all — tools, technologies and data — to bridge across the internal silos, uncover real customer insights, enable personalization and drive growth.

As China's consumer goods companies push the leading edge of innovation around CLTV, there will surely be many valuable lessons to learn.



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