

Home Appliance Co.

Digital Transformation Strategy in China

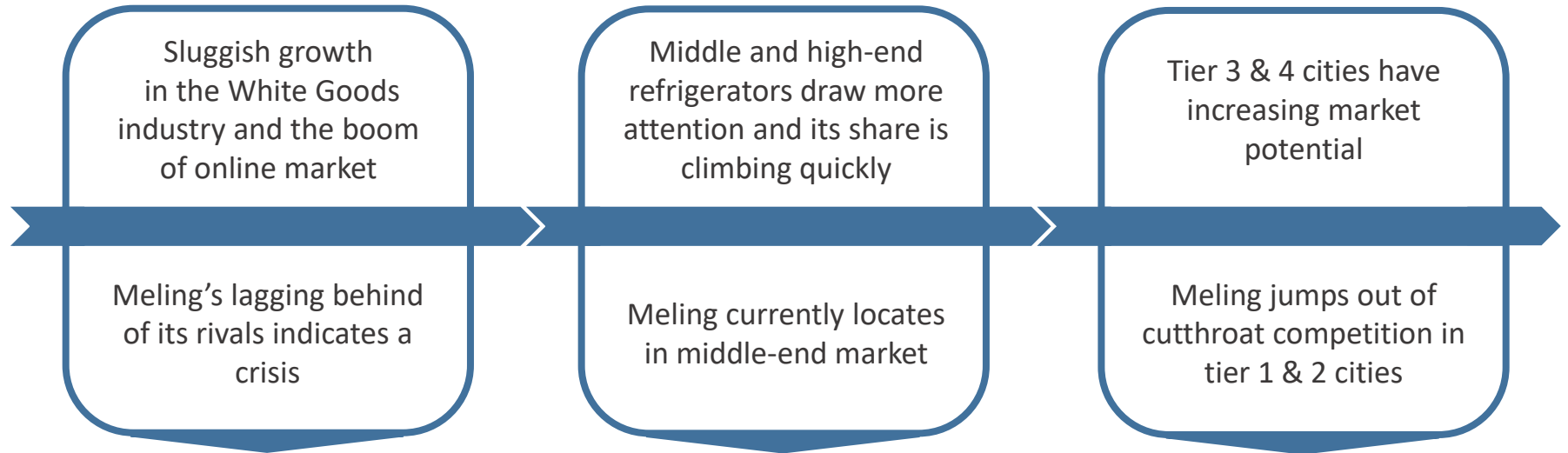
2017 Bain Case Competition

Team On the Neptune



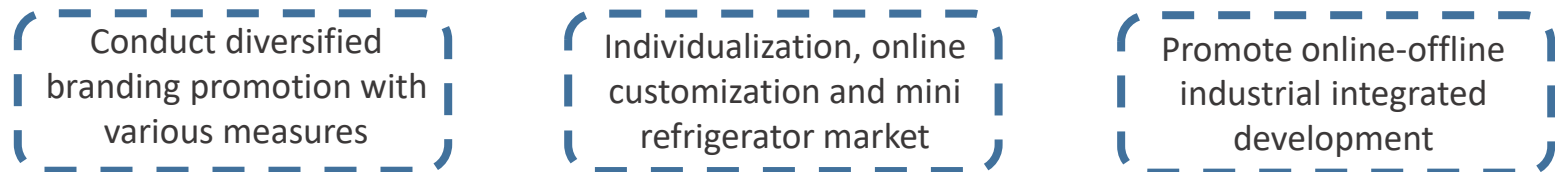
Executive Summary

Meling should make a positive effort to exploit its online refrigerator market in China

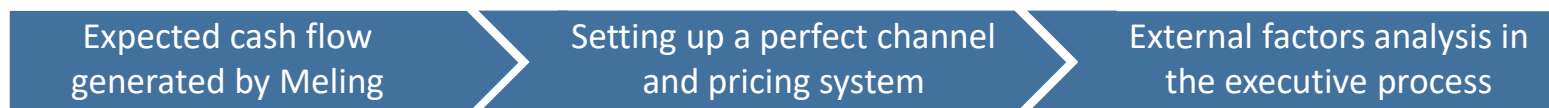


Middle and high-end refrigerator market in tier 3 & 4 cities is the target field to develop online business

Strategies about brand, product and channel

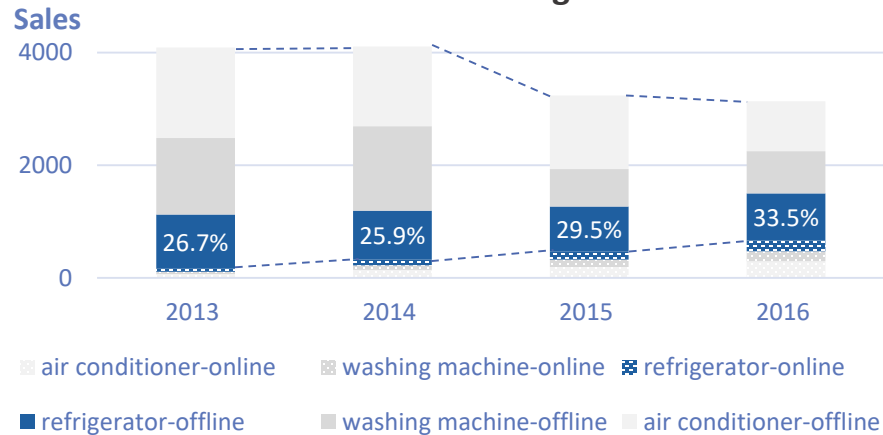


Future analysis steps brought up by our team



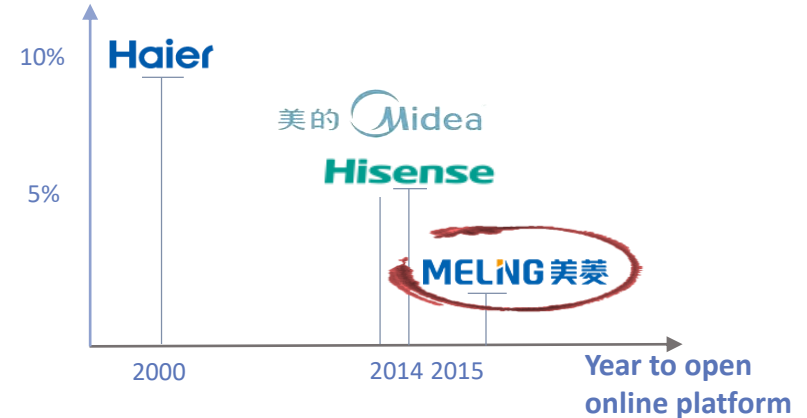
Lagging in digital transformation, Meling missed the online-market opportunities

1 White Goods market overall sales volume weak, online channels shows robust growth

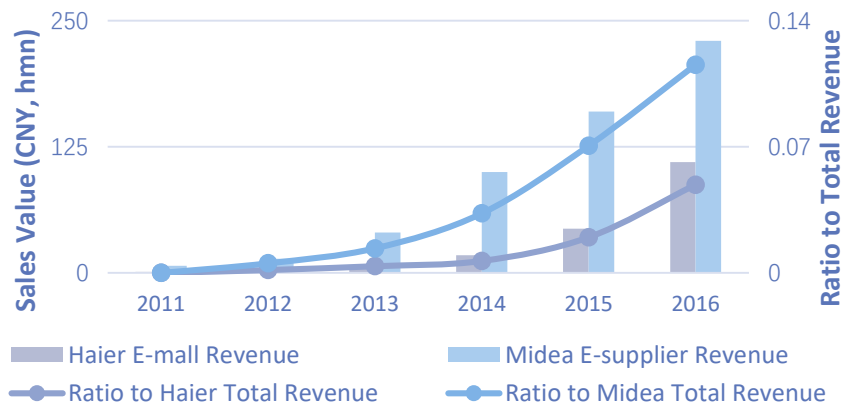


2 Entering online market late, Meling is badly in need of a refresh

% of online sales in total sales



3 Midea & Haier, the first movers in White Goods online market, made a good performance



Insights

- > In a sluggish situation, online market becomes the new industry drive and there is a great growing potential.
- > Due to destocking, washing machines shrank in 2015.
- > With high centralization, Meling has to exploit new market.

Our recommendation is to catch up with the market leaders and expand the online market quickly.

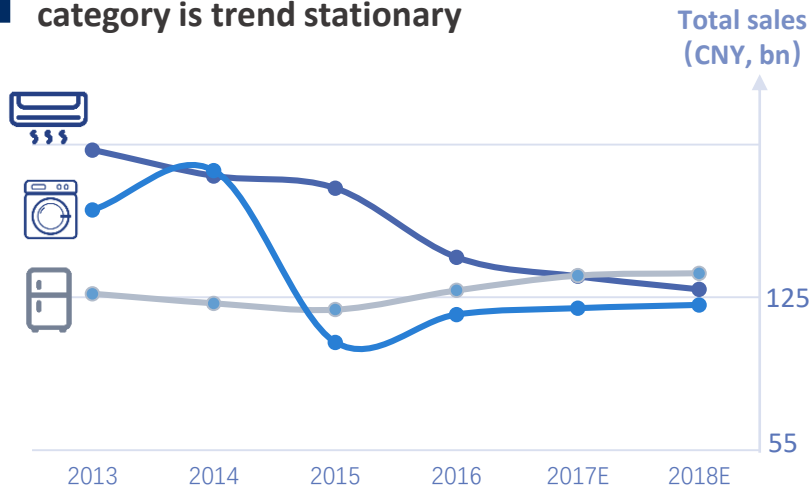
Market Landscape & Status Analysis

- Industry Segment Selection
 - Category Screening
 - Product Positioning
 - Geographic Choice
- Customer Portraiting

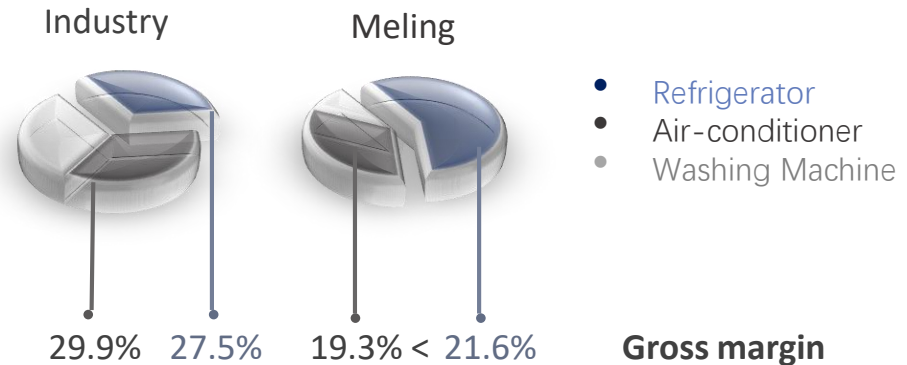
1

Concentrating on refrigerator segment promises higher profit

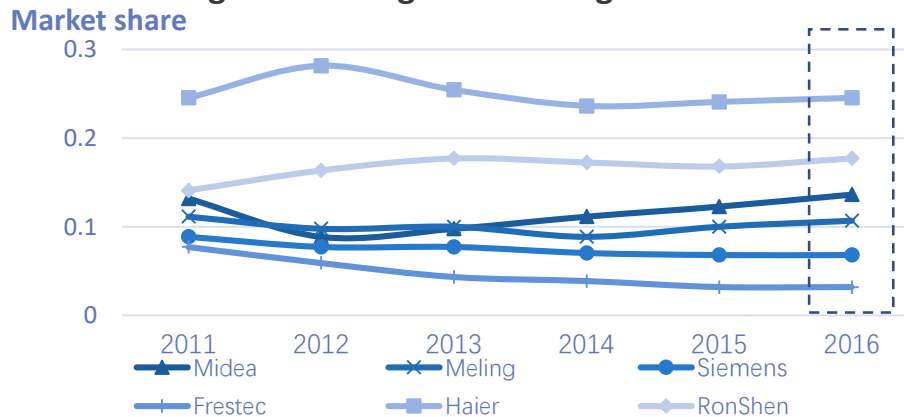
1 Compared to other White Goods, refrigerator category is trend stationary



2 Refrigerators and air conditioners compose major businesses of Meling



3 Strategy center transforming, market share of Meling in the refrigerator field grows faster



Insights

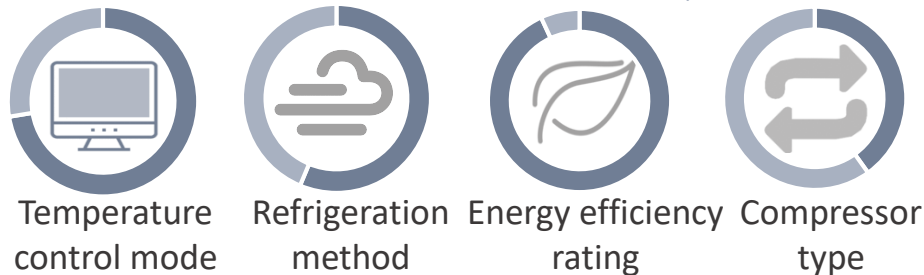
> Destocking continues, air-conditioner sales decline. Pickup of real estate market, sales of refrigerator and washing machine slightly follow up.

> Gross margin of refrigerator exceeds other Meling businesses.

Focusing on refrigerator category is a wise choice for Meling.

The middle and high-end refrigerator provided the primary drive to growth

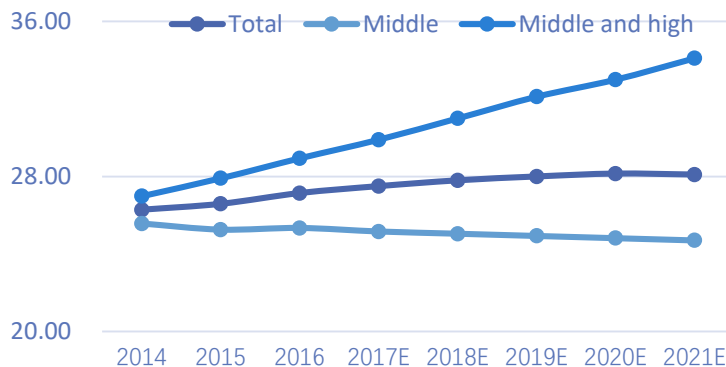
1 Various advanced technology gradually occupy the mainstream



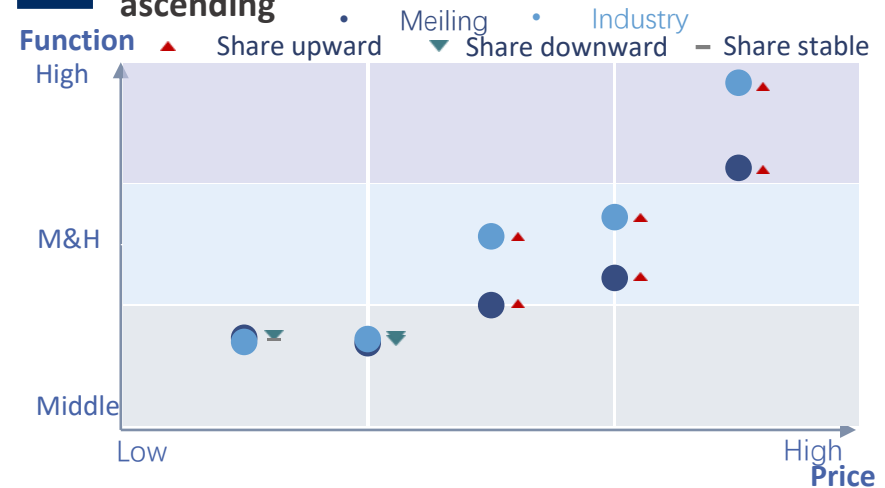
> **New standards:** 1-class energy efficiency standard rises 40%, which means a decline of 1-class refrigerator proportion from 85% to 5%.

3 The profit margin of middle and high-end refrigerator is higher than middle

Margin Profit (%)



2 Market share of middle and high-end refrigerators is ascending



Insights

> Changes in market share reflect consumers' preference for middle and high-end products.

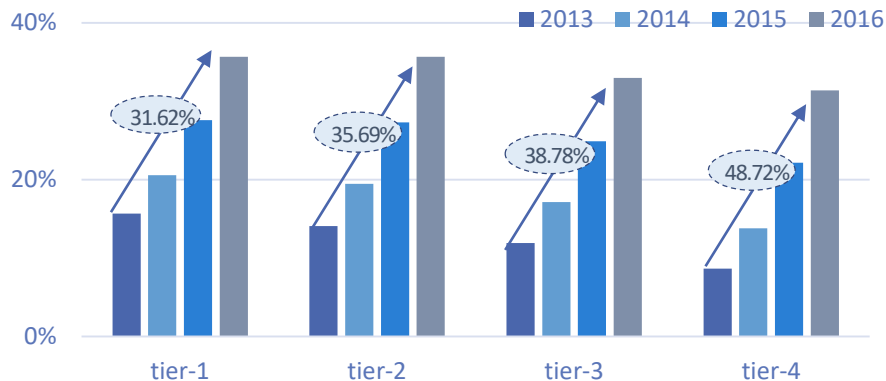
> The decline of cost resulting from technology development brings more profit.

As for the product selection, we recommend the company to focus on the middle and high-end refrigerators.

Tier 3 & 4 cities show huge potential of growth in refrigerator consumption with lower competition

1 Tier 3 & 4 cities achieved a higher growth rate of middle and high-end refrigerators

% of sales volume



2 Meling faces less competition pressure in tier 3 & 4 and ...

Market share in 3&4 / 1&2 tier

MELING 美菱
13% / 7.5%

美的 **Midea** **Hisense**
12.7% / 10% 12.4% / 9.7%

Change of market share in 3&4 tier

MELING 美菱
2.22%

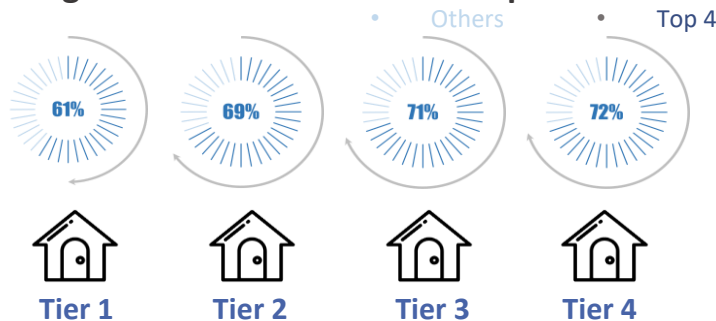
美的 **Midea**
2.05%

Fitness of product price

MELING 美菱
2684

Hisense
2852

3 ... higher concentration rate of top 4 verifies this



MELING 美菱



1st & 2nd tier city

• 9.15 stores / city



3rd & 4th tier city

• 5.70 stores / city



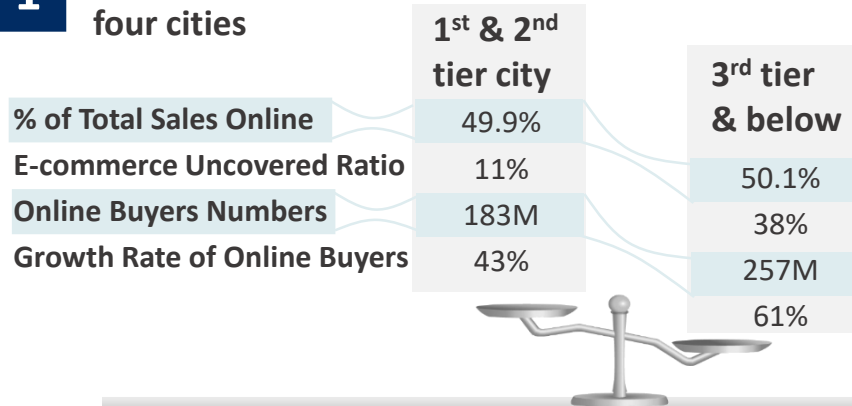
Insights

- > Large population base and consumption upgrading ensure tier 3 & 4 enough growth space.
- > Jumping out of the cutthroat competition in tier 1 & 2, Meling avoids huge pressure when brand channel penetrates.
- > Meling's business focus still lies in tier 1 & 2.

We highly recommend shifting more attention to tier 3 & 4 cities for Meling.

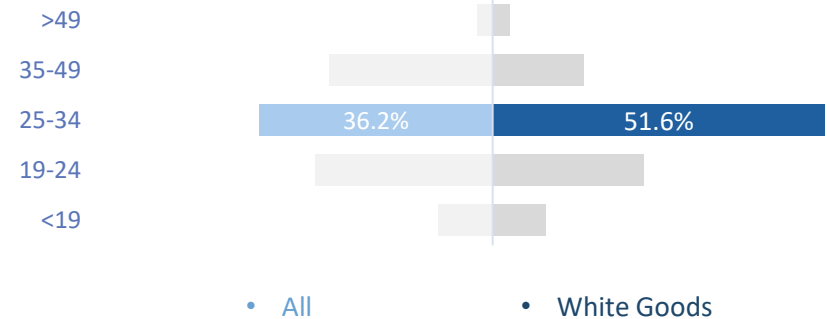
Demographics of customers: post-80s and post-90s in tier 3 & 4 cities

1 High proportion of online consumers in tier three or four cities

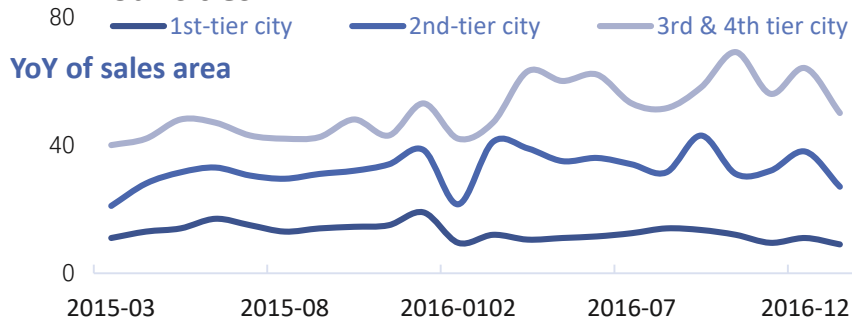


JD data : The people in tier three or four cities consumed more home appliances online

2 The main groups of online consumers are post-80s or the post-90s



3 The new housing demand is higher in tier three or four cities



Further study: Post-80s and post-90s accounts for the majority consumption of new housing.



Insights

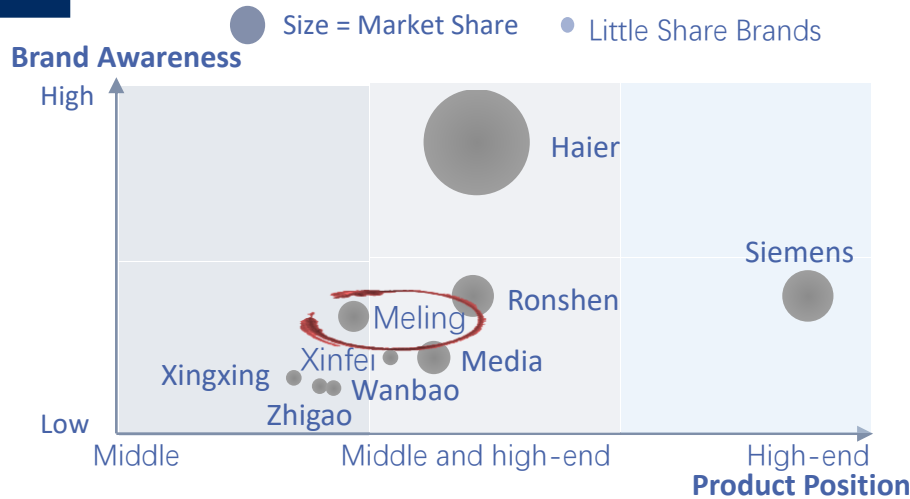
> Online home appliances consumption in tier 3 & 4 has become a new growth point.

>The dominance in online consumption of post-80s and post-90s stands out in WG.

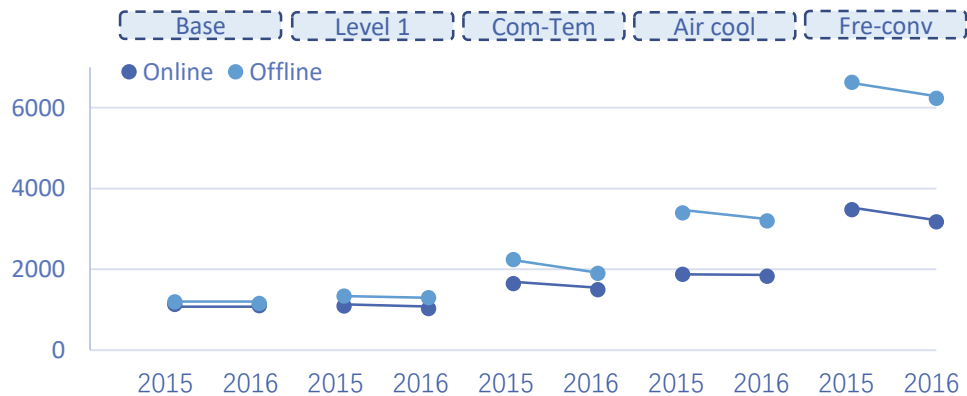
> New urban housing demand growth in tier three or four city is higher, confirming the need to purchase home appliances for the first time notable.

Positioning in the middle refrigerator, Meling has competitive prices to match up with its customer's sensitive demands

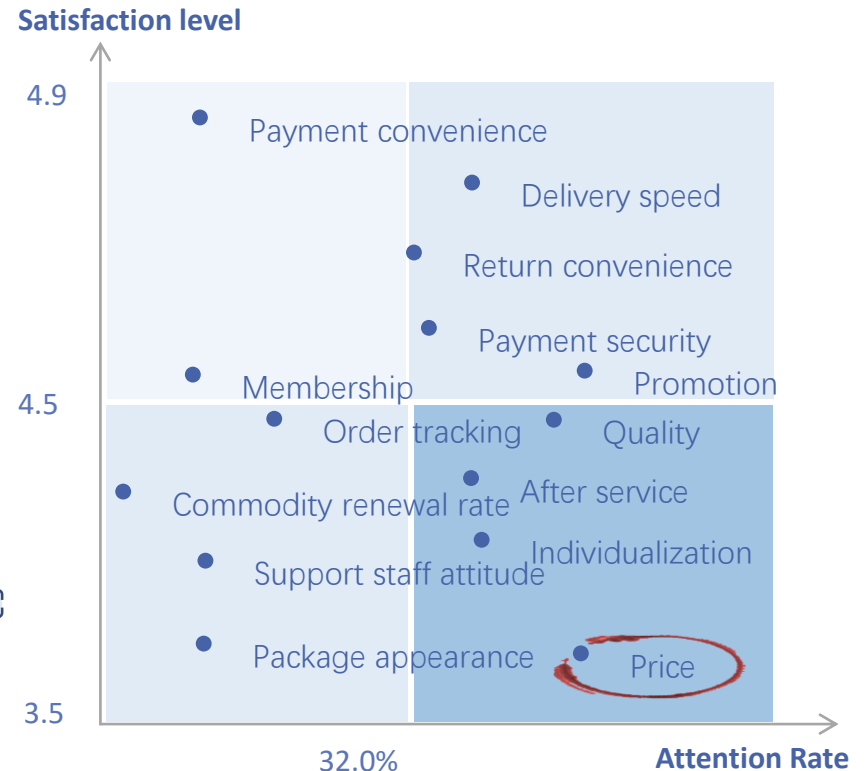
1 Meling locates in middle-end market online



3 The price advantage of online product is more evident in the middle and high-end segment



2 Price is the most concerned factor of tier 3 & 4 consumers



The company positioning and online price spread are in accordance with the needs of users

Demographics of customers: User customized needs and valuable dimension analysis

1 Customization draws much attention and people have various demands

>Product individualization has become an important factor which influence the customers' purchase decision-making.

>The major competitors have made product customization a great way to meet the needs of each unique client.



Newlyweds

We need a special and beautiful refrigerator for our new home.

No imitation and copying. Special details make me unique.



White-collar



Artists

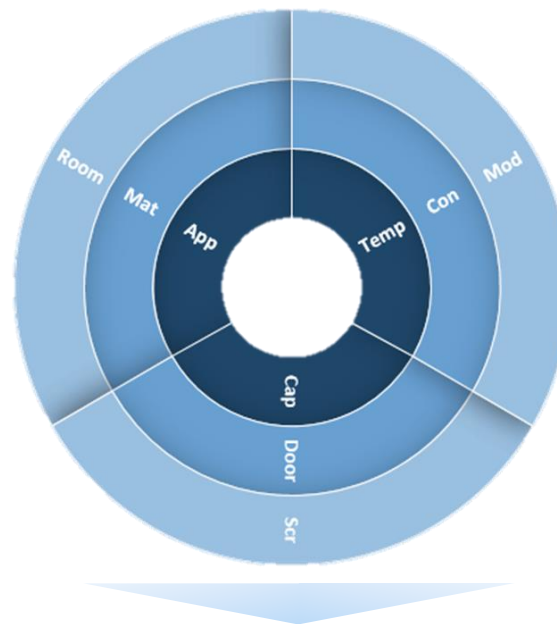
I want an artistic refrigerator to show my attitude to art and design.

Additional functions enable me to take better care of my families.



Young housewives

2 Appearance, temp condition and capacity are top 3 aspects in customization for online customers



- Appearance 86%
- Temp condition 78%
- Capacity 72%
- Material 63%
- Door 61%
- Conversion 47%
- Room 31%
- Model 26%
- Screen 5%

Providing new products and improving the design according to customers' preference is necessary to grasp the opportunity.

Strategy

- Serialized Brand Promotion
- Product Up-grade
- Integration of Online & Offline Channel

2



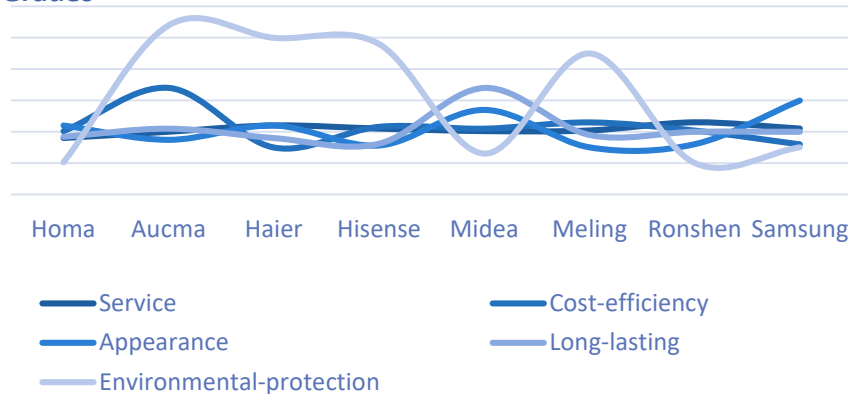
Strategy Overview



Distinguish the brand image by highlighting the core concepts and conduct diversified branding promotion

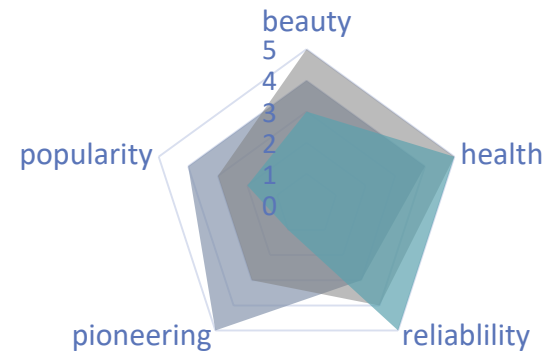
1 Brand images are highly homogeneous while there is an extreme otherness in the environmental protection

Grades



2 People concern different aspects of brand and the concept of health stands out

■ young single ■ newly weds ■ middle-aged



Measure 1



> Make a group-pattern celebrity endorsement and match up the products with the images of the public figures.

Measure 2



> Mention environmental protection as a core concept in whole line of advertisements

Measure 3



> Sponsor green public welfare activities. Implant ad factors of different lines of products according to the preference of customers.

Individualize products, develop online customization and make full use of the supremacy of mini refrigerator market

1 Online shopping youth regard the following features as important aspects of personalized products



Bright color:

Hiring foreign designers to match colors



Unique and simple modern style:

Appearance design following trend



Energy-saving and high efficiency:

Production under new industry standards



Flexible function choice:

Display products with various series



Humanized design:

Redesign with human engineering form

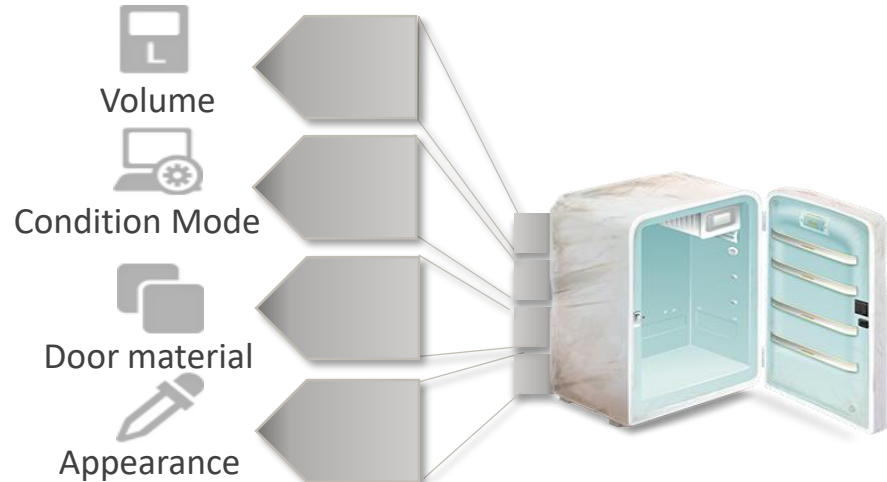


> Mini one-door refrigerator enjoys high network attention and popularity.



> Meling is a top share company in the mini market and is expected to maintain the lead.

2 4 most optimum parameters to realize customization based on user value and practical possibility



VR

- > Improve customers' satisfaction
- > Reduce risk of return

Satisfy the young customer demand for personalized products and seize the opportunity to create monopoly advantage in the new niche market.

Online-channel: self-run online malls bring more benefits in future, attention rate of 3rd-party platform differs

Haier

Official mall-direct sales

Pros

Collect information
More interaction
Supporting service

Cons

Operating cost
Long time
Less attractive

Channel official website

SUNING
苏宁电器

Pros

Agglomeration effect
Promotion channels
Saving expense

Cons

Control difficulty
Intense competition
Communication cost

Channels Analysis

Pros

More interaction
Collaboration publicity
More attractive

Cons

After-sales service
Platform restrictions
Intense competition

Pros

Reduce costs
Touch points
High efficiency

Cons

Less information
Control difficulty
Training fees

天猫电器城

Official flagship stores

Third party platform

amazon

Attention index



Insights

> In the next five years, self-run mall will be a major growth point and the proportions of other online channels change.

A positive effort should be made to keep up with the self-mall trend and take the lead in near future.

Three measures to establish and promote online self-run malls

Warning: Too many online discount promotion make people insensitive to low prices. Shift the customers' attention to product quality and avoid profit loss by limiting quantity.

> Offer free trial period for the lucky customers

> Launch limited super-low-price in-demand lines every month

> Unveil new products along with whole-line promotion

Mad carnival
& brand day

Community-
based self-
run mall

> Peripheral shopping area

> Customer discussion area

> Employ professional home improvement designer to offer online personalized recommendation service

Inside customer discussion area, customers are served as brand evangelists and new product designers as well, which will improve their sense of recognition towards brand.

> Get a membership as soon as purchasing a refrigerator online or offline and have a priority in all promotion activities all the time

> "Family dream relay" : enable the old customers to share their shopping credits to relatives and friends, which brings in new potential customers

> Universal membership ID and a point system that records order history to meet the demands of market better

Membership
system

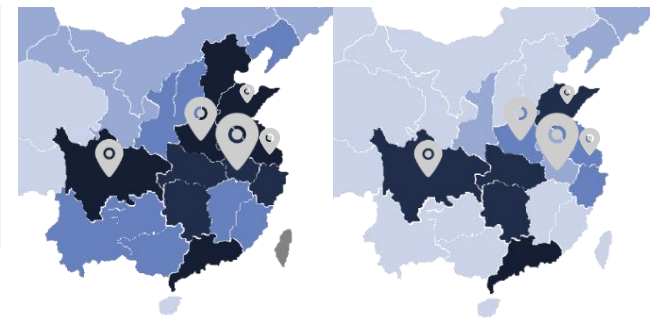
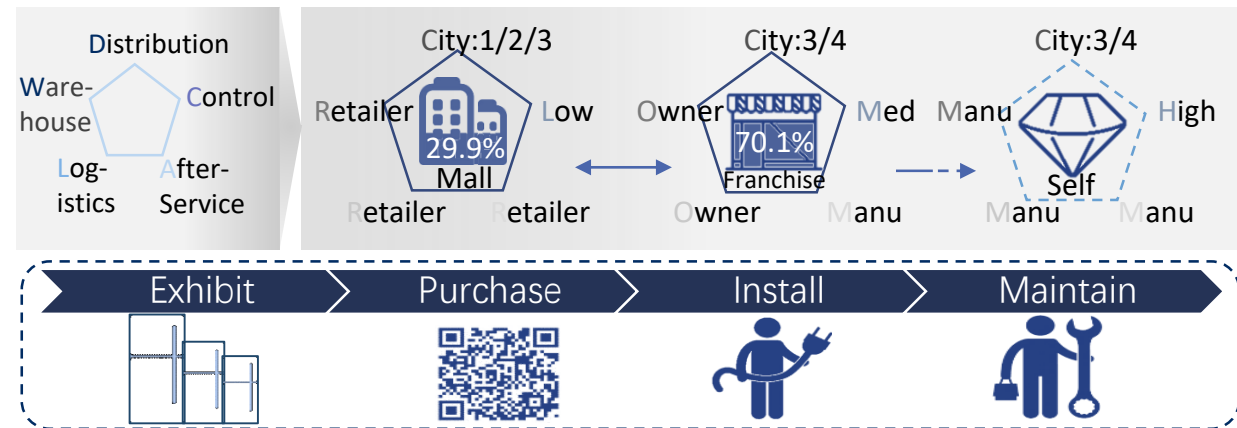
Set up offline direct-sale boutiques to boost online business and promote online-offline industrial integrated development

1

Franchises shop with disorganized management is the main type of offline channels.

2

Meling emphatically invested in Anhui & Sichuan provinces.



By population density (max potential) By search volume (current potential)

Awareness

Concern over the quality

Poor after-sales service

The cold market response to product intelligence

Advice

Deliver the experience of product through rich vision and hearing sense

Offer official service and strictly manage the small after-market suppliers

Gather feedback from users and make prudent investment

Purchase

Exhibit products of various ages, cooling modes and compressor types combined with QR code

Make every boutique an after-sales center to mentor and train the outsourcing suppliers

Offer free smart home service experience and Invite the users to make evaluation



Insights

> Set direct-sale boutiques to enhance user experience and make use of state-owned enterprises characteristic to cooperate with local government, sinking to the tier 3 & 4.

Summary of strategies using DMRT scoring system

Strategy		Diff.	Mag.	Risk	Time	ST CF	Grow	Strat.	Sum
Product technology	Intellectualization Ecosystem construction, Cloud image recognition technology	●	●	◐	◐	◐	●	◐	▼
	Reservation techniques Respiratory enhancement technique	◐	◐	◐	◐	●	◐	●	▲
	Variable-frequency techniques 0.1 degree variable-frequency	◐	◐	◐	◐	●	◐	●	▲
	Individualization Exterior features are more favored by young consumer groups	○	○	◐	○	◐	◐	●	▲
Supports	Blue Ocean Strategy Community Fresh cabinet	●	●	◐	●	◐	◐	◐	▼
	Offline platform construction Storage and distribution	○	●	○	◐	◐	◐	◐	▲
	Offline platform construction E-commerce site and ERP system	◐	◐	◐	◐	●	●	◐	▲
Marketing	Brand construction Promotion of new logo and celebrity endorsement	◐	◐	○	◐	◐	●	●	▲
	Self-built platform Brand Day and anniversaries	○	○	◐	○	●	◐	●	▲
	Downward cooperation Downward cooperation	◐	◐	◐	◐	◐	◐	◐	—