ROTATING TO THE NEW:
HOW CHINESE MANUFACTURERS CAN REIGNITE GROWTH THROUGH DIGITAL TRANSFORMATION
INTRODUCTION: THE NEED FOR NEW GROWTH DRIVERS

China’s manufacturing sector has been going through a challenging period. Traditional drivers of manufacturing demand – investment-led growth policies at home and exports abroad – have weakened. Across manufacturing sectors, revenue growth stalled and profits fell from 2010 to 2015 (with a slight recovery in 2016). Returns to shareholders also fell steadily.

Digital transformation can play an important role in helping Chinese manufacturers improve performance and restore growth. In this paper we share the results of our research on the impact of digital on the performance of Chinese manufacturers and describe how companies can embrace new digital capabilities to sharpen their competitive edge and seize new opportunities in the digital economy. This will require comprehensive, long-range strategies to embed digital processes across organizations, using data to understand customer needs, and building new organizational capabilities.
To help companies gauge their current level of digital transformation, Accenture has created the Digital Performance Index (DPI). This index assesses the level of digital investment and progress across four business functions: planning, manufacturing, selling and management. These measurements show the extent to which a company plans and executes digital strategies, creates digital products and services, uses digital in marketing, sales and customer service, and builds digital culture and operations within the organization.¹ In China, Accenture has formed a consortium with two institutions – the National Research Center for Industry Information Security and the China Service Alliance for Integration of Informationization and Industrialization (CASIII) – to assess the digital performance of manufacturing companies in China.² The consortium applied the DPI criteria to 170 publicly traded companies from six key manufacturing sectors and found that these companies have, a relatively low level of digital performance.³ Only four companies (or 2 percent of the sample) scored among the top 15% among their respective industry peers in all four areas.
TRANSLATING DIGITAL INVESTMENTS INTO BETTER FINANCIAL PERFORMANCE

The results of the DPI assessment point to the opportunity for Chinese manufacturing companies to improve both profitability and growth. We found that companies that scored highest on the DPI metrics, have also been top performers financially. To understand the interplay between digital and financial performance, we combined and compared the DPI results with Accenture’s High Performance Business (HPB) framework – our method of evaluating business performance against industry peers. The HPB framework uses 14 indicators of financial performance on dimensions such as revenue growth, profitability, and growth of total returns to shareholders. We found that once DPI scores exceed a certain threshold – about 2.9 on a scale of 1 to 4 – the average financial performance increases by 54 percent. Given the limited adoption of digital technologies in Chinese manufacturing companies, this indicates enormous potential for overall performance improvement in the industry.

Figure 1. A deep commitment to digital generates top financial performance

* Sample companies are sorted from low to high
Source: Accenture Research, the National Development & Research Center for Industry Information Security
A FEW “DIGITAL HIGH PERFORMERS” STAND OUT

Few Chinese manufacturers achieved highly differentiated performance. These companies are far along in implementing digital capabilities across their operations and are making the organizational changes needed to maximize the benefits of digital. Only 4% of companies in our sample fall into this category of “Digital High Performers” that score highly both in terms of Digital and Financial Performance. Another group of companies, which we call Digital Leaders, have made digital transformation a high priority, but have not yet seen the financial results. About 19% of companies fit into this category. Another 19% of the sample are Business Leaders – companies that score highly on HPB criteria, but are not yet Digital Leaders. The majority of manufacturers in the sample – 58% of companies – do not score highly on either digital or financial performance metrics (See Figure 2).

Figure 2. Most manufacturing companies lag in both digital and financial performance

Source: Accenture Research, the National Development & Research Center for Industry Information Security
The difference in financial performance between Digital High Performers and Business Leaders illustrates the payoff from investments in digital. We found that Business Leaders, which are 38% less digitally mature than Digital High Performers, lag Digital High Performers across all financial performance indicators by up to 20% (Figure 3). They trail in growth by 7%, on average, suggesting that Business Leaders could fall further behind the top-performing companies in their industries unless they make strong commitments to digital investments.

**IS DIGITAL A VIABLE INVESTMENT FOR THE FUTURE?**

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**Figure 3. Digital High Performers outperform Business Leaders across financial metrics**

**Digital performance:**
- **Business Leaders** lag far behind **Digital High Performers**

**Financial performance:**
- **Digital High Performers** outperform **Business Leaders** in terms of profitability, longevity, future value and consistency

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Digital High Performers</th>
<th>Business Leaders</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>DPI score (1-4)</td>
<td>2.9</td>
<td>2.1</td>
<td>38%</td>
</tr>
<tr>
<td>HPB score (0-4)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total performance score</td>
<td>7%</td>
<td>-5%</td>
<td></td>
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<tr>
<td>Growth (Expansion)</td>
<td></td>
<td></td>
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<tr>
<td>Profitability (ROI)</td>
<td>15%</td>
<td></td>
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<tr>
<td>Longevity (Return for Shareholders)</td>
<td>20%</td>
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<tr>
<td>Positioning for the Future (Future value)</td>
<td>14%</td>
<td></td>
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<tr>
<td>Consistency (Sustainability of the advantages)</td>
<td>7%</td>
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</tbody>
</table>

Source: Accenture Research, the National Development & Research Center for Industry Information Security
Digital High Performers also outperform Digital Leaders. While there is no significant difference in digital investments between these two groups of companies, Digital High Performers are better at translating their digital investments into financial performance. They outperform Digital Leaders in financial performance by 94% (Figure 4). The difference can be traced to how companies invest in digital. While Digital Leaders often focus digital investments on optimizing processes and improving efficiencies, Digital High Performers go a step further: they embrace digital technologies as part of corporate strategy and use digital to drive business transformation.

**Figure 4. Digital High Performers excel in translating digital investments into financial performance**

Digital performance: Digital Leaders and Digital High Performers both have made substantial investments in digital capabilities...

Financial performance: ...but Digital High Performers perform nearly twice as well on financial metrics

Source: Accenture Research, the National Development & Research Center for Industry Information Security
PLANNING: BUILD AND EXECUTE DIGITAL TRANSFORMATION STRATEGIES.

Digital High Performers use technology to transform their businesses and to identify and exploit new growth opportunities. As part of this strategy, Digital High Performers immerse themselves in emerging digital ecosystems and leverage the collective intelligence of disruptors, third-party partners, and even competitors to open new avenues of opportunity and growth.

SELLING: ENHANCE CUSTOMER ENGAGEMENT AND PERSONALIZE CUSTOMER EXPERIENCES WITH DIGITAL TOOLS.

Using digital touch points, Digital High Performers create new possibilities for interacting continuously with customers. They create unique and customized interactive experiences through websites, mobile apps, and in-store systems that grab the customer’s attention, deepen engagement, and increase sales.

MANUFACTURING: USE DIGITAL TO DESIGN, BUILD AND DISTRIBUTE PRODUCTS AND SERVICES.

Digital High Performers not only use digital technologies in their products and services, they also employ digital capabilities to transform how they design, produce, and distribute their offerings. They build in-house capabilities and tap the digital ecosystem, using external resources for speed and flexibility. They use digital processes in their operations and employ rich data to improve decision-making and find ways to add value to products.

MANAGING: CREATE A DIGITAL CULTURE AND RENEW THE ORGANIZATION FOR THE DIGITAL AGENDA.

Digital High Performers are also digital on the inside. They continuously optimize technology infrastructure and architecture. And, critically, they work hard to create a culture that can make the most of investments in digital tools. This includes developing new capabilities and mindsets to enable the company to reinvent how it competes, rather than merely pursing incremental, operating improvements.
Our research shows that most companies are capable of using digital technologies to create business efficiencies, but few are currently using them to substantially improve their performance for the long run. This is what Digital High Performers do and this is a critical requirement for Chinese manufacturers that hope to find new sources of growth. To be more like Digital High Performers, manufacturers need to deliberately plan to change their organization perpetually by deploying digital technologies to achieve their business’s required rotation to the new. We identify four imperatives for rotating to the new (Figure 5):

- **Transform the Core** – Use digital technology to automate and streamline processes, creating a lower cost structure that will generate the profits to fund further efficiency gains and growth.

- **Grow the Core**. Use digital technology to drive top-line growth in the core business. Digital marketing and analytics, for example, can generate new insights that can lead to incremental sales; well executed web/mobile experience can activate new demand and help manufacturers expand into new markets.

- **Scale the New**. Identify and build up new – businesses beyond the core. Create an effective innovation architecture such as innovation hubs, labs and partnerships and make the investments to take new businesses from concept to large scale.

- **Make a wise pivot**. Balance the size and timing of core and non-core investments to keep the core business healthy as new businesses takes shape.
Chinese manufacturers that can successfully rotate to the new by transforming their core business while growing into the new will achieve high performance and thrive in China’s burgeoning digital economy.

Figure 5. Four steps to “rotate to the new”
See “About the research” for more details on the Digital Performance Index.

Backed by the China Service Platform for Integration of Informatization and Industrialization, the National Research Center for Industry Information Security and the China Service Alliance for Integration of Informatization and Industrialization (CASIII) have initiated the diagnostic evaluation and benchmarking initiative. By the end of July 2017, more than 75,200 companies have submitted data to the integration database.

See “About the Research” for details.
The Accenture Digital Performance Index (DPI) is a cross-industry framework to assess a company’s digital maturity across four business dimensions: plan, make, sell, manage. Each dimension has three sub-dimensions and 62 detailed metrics. This multi-dimensional approach can help pinpoint progress on an organization’s digital journey. A scale of one to four was used to rate company performance on each metric. A score of 1 indicates that the company is significantly below its peer average, whereas a 4 indicates that it is significantly above the peer average.

To determine the degree of digital performance, we have surveyed 170 public companies from six key sectors. Each company completed a self-evaluation questionnaire developed by CASIII. See industry breakdown below.
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ROTATING TO THE NEW
ABOUT ACCENTURE

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions – underpinned by the world’s largest delivery network – Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With approximately 425,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives.

Accenture has been operating in Greater China for 30 years. Today, the Greater China practice has around 15,000 people serving clients across the region and has offices in Beijing, Shanghai, Dalian, Chengdu, Guangzhou, Shenzhen, Hong Kong and Taipei. As Chinese economy experiences the new normal, Accenture will bring more innovation to the business and technology ecosystems and help Chinese enterprises and the government to embrace digitization and enhance global competitiveness to succeed in the new age.

For more information about Accenture, please visit its corporate homepage www.accenture.com and its Greater China homepage www.accenture.cn.

ABOUT ACCENTURE RESEARCH

Accenture Research identifies and anticipates game-changing business, market and technology trends, and provides insights for global enterprises and organizations to address their challenges. Accenture Research has about 300 researchers on the research team, who are located in 23 countries across the globe, and partners with world-class organizations such as MIT and Singularity to discover innovative solutions for our clients. Every year, by combining innovative methodology and instruments with industry insights we publish hundreds of data-based reports, articles and opinions to anticipate industry and market trends and identify innovation future. Please visit Accenture Research website at www.accenture.com/research.

NATIONAL RESEARCH CENTER FOR INDUSTRY INFORMATION SECURITY

The National Research Center for Industry Information Security (NRCIIS) is responsible for conducting strategic research, R&D, monitoring & early-warning, assessment, emergency and industrial development related to industry information security, building up the relevant capacity, and safeguarding the security.

Its objective is to build the Center into a China first-class research institute in the fields of industry information security and informationization-industrialization integration (III), responding to the national strategy of ‘making China great through manufacturing and informatization’, sticking to the principle of ‘supporting government and serve industry’, and focusing on integration of manufacturing and Internet as well as industry information security. It aims to become China’s think-tank for government policy-making and an authority to guide industry development, so as to offer policy support and safeguard for the China Manufacturing 2025 Program, the integration of manufacturing and Internet, the capacity building of industry information system, the protection of key infrastructure, and the development of the information industry.

CHINA SERVICE ALLIANCE FOR INTEGRATION OF INFORMATIONIZATION AND INDUSTRIALIZATION (CASIII)

CASIII was founded in 2013 under the auspices of the Ministry of Industry and Information Technology (MIIT). With ‘reinventing traditional growth drivers and identify new drivers’ as its mission, ‘partnership for all win’ as its purpose, and ‘strategic planning, methodology and instruments, solutions finding and exchange for scaling’ as its focus, CASIII provides government, industry and businesses with comprehensive quality services, such as tracking and judging, thematic study, standards-setting, diagnostics and consultation, standards adoption, demonstrative pilots, publicity and training, technical solutions, results scaling, conference meeting and international cooperation. MIIT has designated CASIII as the implementer of the Informationization-Industrialization Integration Initiative (2013-2018).

CASIII consists of a steering committee, a member representative assembly, a expert committee, the council, the secretariat, the sub-alliances, a working committee and the international alliance. The steering committee comprises of leaders from MIIT and local relevant authorities. The expert committee consists of leaders from the National Information Advisory Committee, the Internet Society of China, and other institutes. Presidency and secretariat are posted at the National Research Center for Industry Information Security (Electronics Institute 1 under the Ministry of Industry and Information Technology). There are a total of 486 member institutes from 23 state-level associations, 27 corporations under the central government, and 436 industry-leading companies, service centers and research institutes. Sub-alliances have been set up in Fujian, Guangdong, Henan, Hebei and Wuhan, working committees are also established for the Informationization-Industrialization Integration, big businesses ‘mass innovation and entrepreneurship’, industry big data, pharmaceutical tracking, new media, finance and personnel training, and international alliance is growing.

Backed by China Service Platform for Integration of Informationization and Industrialization (www.cspii.com), WeChat account and the MIIT-III scaling labs, CASIII spreads innovation methodology and toolkit and case studies related to theoretical proposition, R&D, modeling and publicity, serving as an important platform for resources and results sharing and core business synergy.