Adapting to Shifting Consumer Needs: China Online Strategic Consumer Groups 2.0 System Upgrade

TMALL天猫 | 淘宝·天猫 | 商家品牌策略
Taobao Tmall Div. Brand Excellence Strategy

BAIN & COMPANY ◷

Contents

Preface

Since 2017, Bain & Company and Alibaba have embarked on close partnership, proposing the idea that brands should focus their digital transformation on consumer-centric value creation, and make efforts relentlessly in three key battlefields - people, product, and place. In 2018, the FAST index system was jointly launched to empower the digital-oriented consumer management systems. In 2019, Bain and Tmall released another report, the *2019 Online Strategic Consumer Groups Report: Innovate for Consumers with Insights from Big Data*, which categorized consumers into eight distinctive strategic groups: Rookie White Collars, Wealthy Middle Class, Supermoms, Small-Town Youth, Gen Z, Urban Gray Hairs, Small-Town Mature Crowd and Urban Blue Collars.

Guided by the strategic consumer groups methodology, on one hand, Tmall has built and improved the industry-tailored and scenario-tailored consumer groups system by factoring in both industry characteristics and different consumer decision criteria across categories. On the other hand, it has also explored and optimized a common consumer groups system for core scenarios valued by brands, such as new product operations and customer-product matching. Meanwhile, Tmall has set up the T-DIGITAL as an open innovation platform to help ecosystem partners provide comprehensive digital operations solutions and products for brands using its digital ecosystem capability and scenario specific customization, thus scaling up the application of digital services for brands. More than 1,000 brands have used the strategic consumer groups system in the past year and have been significantly empowered by the analysis and insights of Tmall and ecosystem partners, including Bain.

Amid the rise of purchasing power, consumers have shifted from addressing their basic needs to the fulfillment of development, enjoyment, and emotional needs, which has been driven by their diverse demands and more sophisticated consumption mindsets. Apart from higher product quality, consumers now have higher expectations on consumption culture, new shopping ways and experience, so understanding changing and growing consumers has become the first step for brands to succeed in the market. The capability to generate multi-dimensional consumer insights with higher granularity has become the new key success factor for brands. As COVID-19 has accelerated consumers' shift towards online shopping, e-commerce has become a more important channel to influence consumers' purchasing choice, with broader online behaviors being observed and synthesized, enabling a multi-dimensional, digital description of consumers. To help brands better understand, embrace, and build sustainable connections with consumers, Bain collaborates with Tmall, with further support from the academic team of Antai College of Economics and Management (ACEM) of Shanghai Jiao Tong University, to upgrade the strategic consumer groups methodology and framework, and launch the **Strategic Consumer Groups 2.0 (SCG 2.0) system**, which introduces multiple academic disciplines to describe consumer attributes vividly and holistically.

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SCG 2.0 system shows improvements in multiple dimensions, now featuring higher industry relevance, stronger scenario specificity and better long-term predictability. The system is built on eight strategic consumer groups to gain insights into their consumption preference, vanguard degree and consumer decision-making preference, which allows for multi-dimensional insights of real consumer behaviors, as well as the categorization of underlying business drivers in a meaningful way. Meanwhile, SCG 2.0 emphasizes **3E "Efficiency, Effectiveness, Efficacy"** to upgrade scenarios. The 3E system and insights on diversified consumer groups help create an omni-channel, end-to-end strategy system that covers cross-functional scenarios, supporting merchants to implement their customer digitalization strategy by **improving short-term efficiency while achieving long-term efficacy.**

Chapter 1

Strategic consumer groups upgrade becomes an imperative as society evolves

Background: Consumption symbolization and consumption entities diversification

Consumption patterns in China have undergone a number of changes as the society evolves, from meticulous planning driven by unit individuals, to a white-collar society in which consumers have become more diversified and increasingly desire personalization and self-realization, demonstrating an upgrade of consumption pattern featuring quality upgrade, personalization, fun and pay-for-experience. An accumulation of material supplies and digital age natives' higher purchasing power have led to diversified consumer behaviors. Consumers increasingly value the social aspect of consumption, giving to the rise of the "cultural circle" concept *(see Figure 1)*.

Jean Baudrillard, the French sociologist, interpreted such phenomenon as "a shift from the consumption of goods to the consumption of symbolic meanings". According to him, "modern consumption is not simply the act of purchase; it is the consumption of symbols indicated by the goods rather than goods themselves. These symbols relate to personal identity, social status, and reputation. With this consumption of symbols, individuals are differentiated socially, which lays the foundation of modern consumer society." Simply put, we consume more than the goods themselves. Modern consumption now bears an external facet to communicate "who I am" and "how I want to be perceived", which is the essence of modern consumption. In this process, consumers are constantly looking for products that represent their own persona.

With the rise of consumption symbolization, consumption transcends beyond simple needs satisfaction and becomes a demonstration of personal values and lifestyles. At the same time, brands need to develop differentiated functions, packages, and concepts to create different meanings of consumption, thus formulating distinctive brand propositions to satisfy consumer needs. In this context, we need to develop a thorough understanding of consumers with deeper, broader, and more diverse perspectives.

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Figure 1: Evolution of social stage and consumption pattern

The transition phase we are in

Unit society	Blue-collar society	White-collar society	Digitalized society

Main consumption entity

Unit individuals	Blue-collar workers	White-collar workers	Digital age natives

Main consumption model

Meticulous planning	Mass consumption	Consumption upgrade	Consumption cultural circle

Main consumption feature

Planned supply Consumption quantity and variety constrained	Abundant commodity supply Standardized consumer products in large quantities for basic needs	Quality upgrade Personalized, fun, and pay-for-experience	Forming cultural circles Find individuals with similar preference through the internet

Sources: Lit research; Bain analysis

Consumers now have three pairs of seemingly conflicting but rationally sensible decision criteria

A clear trend can be observed when we deep dive into consumer decision criteria: consumers' decision factors become more complex, which form three pairs of seemingly conflicting but rationally sensible decision criteria: Perceptual vs. Rational, Practical vs. Picky, Self vs. Community.

Perceptual vs. Rational: Consumers can be very rational when purchasing certain product categories, while more driven by perceptions and emotions for some other devoted product categories.

Practical vs. Picky: Consumers choose cheaper substitutes for basic categories, while paying extra for categories related to lifestyles, interests, and cultural circles.

Self vs. Community: Purchasing criteria are no longer just about personal preferences; they expand into aesthetics and tastes indicating consumer cultural circles.

Perceptual vs. Rational: Consumers use different decision-making processes for different categories

In 1980, Richard Vaughn from FCB Advertising company suggested that different products can be categorized into four quadrants by two axes: think vs. feel, high vs. low involvement, i.e., the FCB Grid. "Involvement" is defined as the extent to which consumers are willing to spend time and

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efforts learning about a product, often influenced by factors such as category price. "Think and feel" measures the level of emotions that consumers invest in a product. Buyers follow different purchasing and decision-making patterns in each of the quadrant *(see Figure 2)*.

Informative: Products that require a high degree of involvement and intensive thinking during decision-making fall into this quadrant, e.g., washer, insurance, TV, etc. Consumers first learn the product attributes, then they feel the effectiveness, pros/cons, and finally make the purchase.

Affective: They are relatively valuable products with an apparent emotional attribute and rely on a high degree of involvement and feelings during decision-making, e.g., expensive watch, perfume, sports car, etc. Consumers first develop a connection with the brand or the product, then gain knowledge about it and finally make the purchase.

Habitual: This category of products primarily includes everyday essentials, e.g., paper towels, shampoo, insecticide, etc. Consumers do not need a high degree of involvement, and purchase through an analytical decision-making process. For this category, consumers first purchase the product, and make a judgement on whether it is effective or not according to actual usage, then develop feelings such as trust in the brand or product.

Figure 2: Categorizing products by perceptual/rational, each with different purchasing and decision-making patterns

Sources: Lit research; Bain analysis

Satisfaction: The purchasing decision of this product category is driven by emotions but does not require a high degree of involvement, e.g., beer and soft drinks, greeting card, snacks, etc. For this category, consumers buy the product, feel positive or negative after the purchase and consumption, and then gain a more systematic understanding about the product.

Among the two axes of the FCB Grid, we believe that the involvement is largely influenced by the nature of the category itself, such as product price, purchase frequency, etc., suggesting that it's an objective attribute that affects the consumers' decision patterns; while the perceptual vs. rational (think vs. feel) dimension is more relevant to consumers' own level of demand for such products, which is more influential to the evolvement of consumers' decision patterns, and also more relevant to this white paper. For example, when refrigerators were not as popular in the past, products with basic quality and functionality were good enough for consumers who could afford them, but now some users expect refrigerators to reflect a new lifestyle, demonstrate a sense of technological intelligence, or have a perfect look that matches their home aesthetics. With the rise of income level, Chinese consumers have increasingly sophisticated demands for more categories, focused more on the lifestyle, self-satisfaction and other emotional needs beyond basic functional needs.

Practical vs. Picky: Consumers choose cheaper substitutes for basic categories, while paying extra for categories of interests

Along the Perceptual vs. Rational decision-making path, consumers show different willingness to pay a premium for different products. For the categories that allow consumers to show off and connect with others, the number of purchases for higher-priced products has increased at a higher compound annual growth rate; while for the basic necessities categories of which consumption is for self-use, consumers are more likely to purchase practical, affordable products *(see Figure 3)*.

Self vs. Community: Consumers increasingly focus on indicating the aesthetics of their cultural circles through purchasing decisions

On top of the trends Perceptual vs. Rational and Practical vs. Picky, gaining a sense of belonging and recognition within a community context has also become an increasingly important decision factor: on one hand, more consumers enjoy personalized self-expression, on the other hand, we-media, social network and mobile social shopping with strong sharing and interaction features are gaining importance and have nowadays become trendy in an individual's digital life. People nowadays, especially youngsters, are keen to visualize their lifestyle choices and consumption preferences to others to gain recognition while finding like-minded friends. Personality is merely a clear factor that distinguishes cultural circles that purse different meanings and values. Within every cultural circle, people are constantly seeking to identify with one another, which gives rise to cultural circle-oriented consumption. As a result, we found that the value of a product is extending beyond functional attributes of hygiene factors into identity-related and emotional attributes of motivation factors *(see Figure 4)*.

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Figure 3: Consumers choose cheaper substitutes for basic categories, while paying extra for categories related to lifestyles, interests, and cultural circles

Growth rate of # of purchases per year by price band (2020–2022, %)   / Illustrative
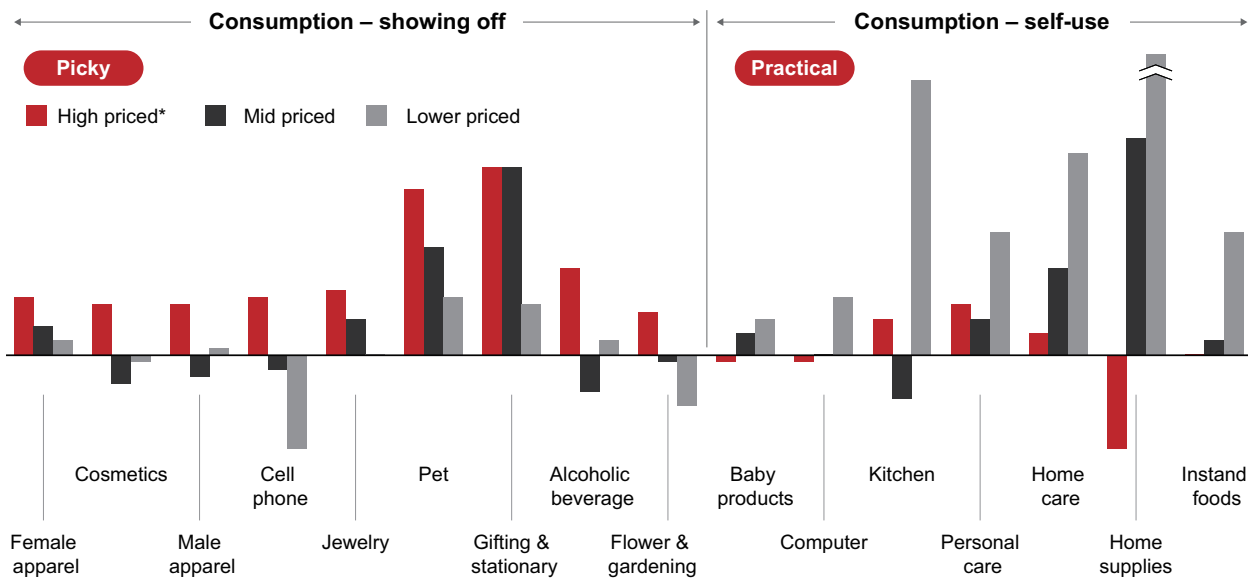
Notes: Timeframe is 2020.7 – 2022.6; *Higher priced is defined as products' ASP is 1.2x or higher than category average, lower priced is defined as products' ASP is 0.8x lower than category average, the rest is mid priced
Sources: Alibaba data; Bain analysis

Figure 4: Functional hygiene factor is no longer the only criterion that consumers consider for purchases, and their purchasing criteria are expanding outwards to identity, emotional and other motivation factors

**The product characteristics
that consumers buy are expanding outwards**
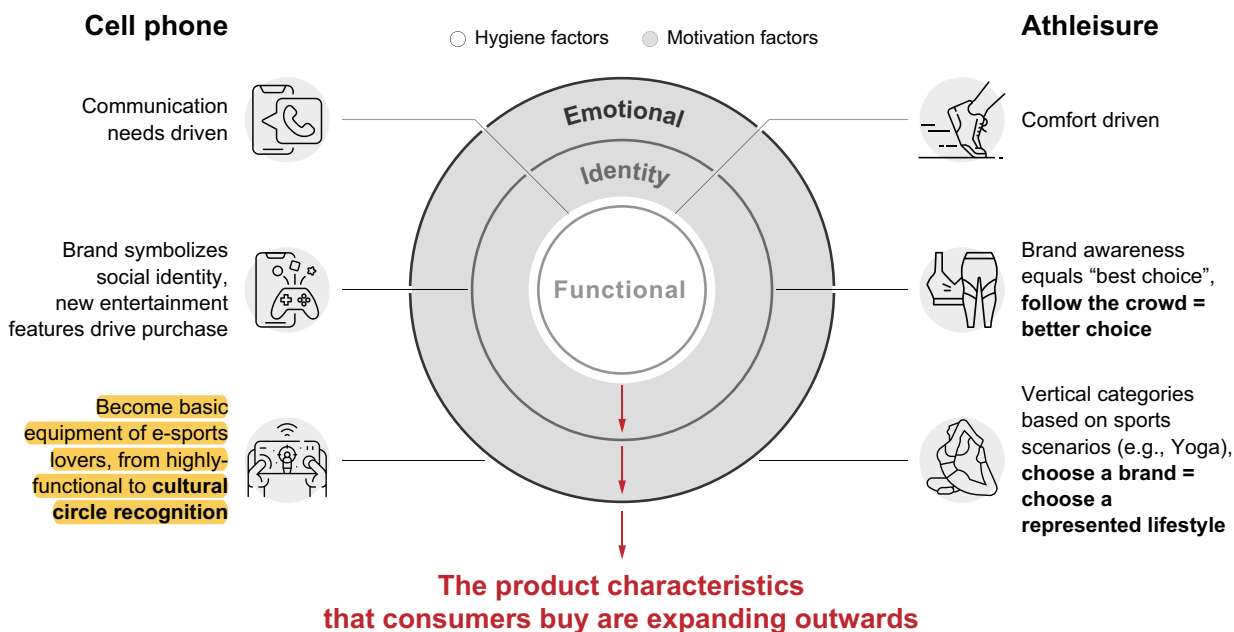
Note: Cultural circle is defined as a group of people who love the same thing/culture and are willing to continuously invest, and also are inter-connected with similar style, belongings, expression, as well as professional knowledge

Cell phone example: The basic attributes of cell phones mainly meet communication needs. But as the positioning of available products diversifies, brands have embedded identity tags and more diverse features into cell phones, which can better meet the consumer needs for entertainment, and life and social status manifestation. Following the rise of the circle culture, specific cultural circles have emerged among cell phone consumers. For instance, e-sports lovers indicate the group they belong to by purchasing e-sports cell phones.

Athleisure example: Athleisure apparel used to focus on comfort wearing experience. However, as certain brands symbolizing higher quality and price became mainstream, consumers associated sports consumption with social status, and mainstream brands became a better choice. Later, as people become clearer about their groups and needs relating to their sports habits, more vertical brands have emerged, and people are looking for products that fit and symbolize their values and lifestyles.

To summarize, the overall trend of consumption symbolization and the increasingly complex decision criteria bring new challenges for brands in gaining insights into consumer groups. To be more specific, **consumers are conflicted - they pursue self-expression while desiring community recognition, and are both perceptual and rational in their choices. This phenomenon naturally raises a question: what kind of brands and categories are able to attract customers? This requires brands to gear up with methods and tools to gain deep customer insight into consumption preferences, including cultural circle preferences and lifestyles, as well as the vanguard degree (which will be elaborated below) that describes where consumers are positioned in their cultural circles and whether they are opinion leaders. That is how brands can effectively solve the current critical issue of "identifying who their consumers are". Consumers are sometimes practical and sometimes picky, and their reactions to price premium, promotions, product value and even forms of purchase differ drastically, making more dynamic and comprehensive information collection a necessity for brands, and therefore exploring individual consumer decision-making preferences has become important.** The eight strategic consumer groups built on basic demographics need to be upgraded. The newly upgraded strategic consumer groups system is built upon multiple criteria and features of consumer purchasing decisions that we have identified and defined: Perceptual vs. Rational, Practical vs. Picky, Self vs. Community. This new system also reflects the trend that symbolic meanings such as circle cultures, lifestyles, etc. are affecting consumer decisions in a more dominant way, thus defining and describing consumer cultural circles in a more-dimensional, more precise, and more dynamic way.

Chapter 2

The rise of strategic consumer groups 2.0 system

The underlying academic disciplines, data rationale and core aspects of the upgrade

In response to the pace of change in today's consumer society, and based on our deep understanding of modern consumers' consumption characteristics, we understand that consumption is not only about meeting basic functional needs, but also as a means to express one's lifestyle, identity and value propositions, and consumer behaviors demonstrate three pairs of seemingly conflicting but rationally sensible decision criteria - Perceptual vs. Rational, Practical vs. Picky and Self vs. Community. Therefore, we have upgraded the theoretical foundation of "strategic consumer groups". By integrating the basic demographics that underpin the previous eight strategic consumer groups with academic disciplines such as economics, sociology, psychology and communication, while leveraging natural and scientific data analytics, algorithms, and models such as K-MEANS, Hierarchical Clustering and Neural Network Clustering, and finally coupling with business logic inputs, we have created three modules of "consumption preference", "vanguard degree" and "consumer decision-making preference", aiming to capture consumer characteristics in a more comprehensive and precise way *(see Figure 5)*. In short, SCG 1.0 helps platforms and brands identify "who the consumers are" based on demographics, while SCG 2.0 starts from "who the consumers are", and also answers questions such as "what the consumers like "(consumption preference), "how much they like" (vanguard degree) and "how they buy" (consumer decision-making preference).

Upgrade 1: The eight strategic consumer groups of SCG 1.0 system were analyzed and identified based on the consumer demographics, allowing merchants to develop a basic view on consumers based on dimensions such as gender, age group, city tier, etc. SCG 2.0 now introduces three additional dimensions to help merchants further understand the following aspects of consumers *(see Figure 6)*.

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Figure 5: SCG 2.0 system introduces multiple academic disciplines to capture consumer character-istics in a more comprehensive and precise way

8SCG **Theoretical foundation: demographics**

"2D view"

- Gender, age group
- City-tiers
- ......

8SCG **Theoretical foundation: demographics**

"3D insights"

Willingness to pay

Emotions and cultural circles

...

Acceptance of trends

Influence on trends

...

Hobbies

Promotion participation

+ **Multi-dimensional, multi-discipline**

Consumption preference

Vanguard degree

Consumer decision-making preference

Economics

Sociology

Psychology

Communication studies

...
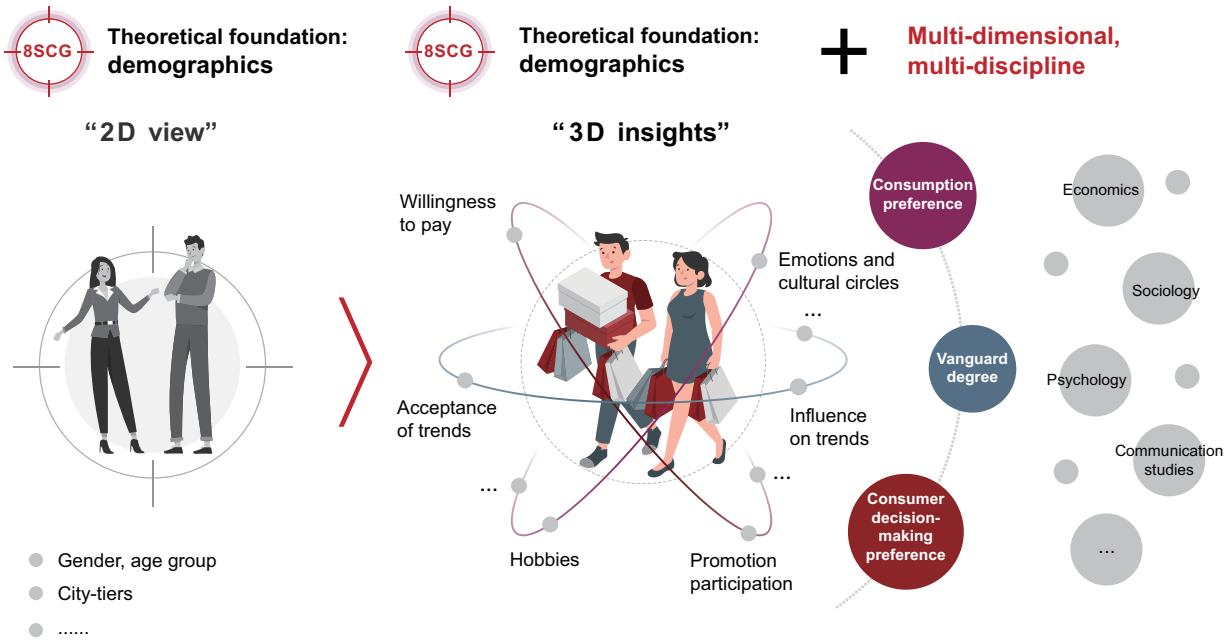
Sources: Alibaba operations experience; Bain analysis

Figure 6: SCG 2.0 captures real consumer behaviors across broader dimensions, while categorizing underlying business drivers in an instructive way

Higher precision of insights and categorization allows fine-grained observation on business drivers

8SCG Demographic categorization

Consumption preference Deep dive into hobbies, lifestyles, cultural circles

Vanguard degree Whether is vanguard / trend-leading or not

Consumer decision-making preference Importance of purchasing decision-making criteria

— Who the consumers are —		— What they like —			— How much they like —	— How they buy —
Female	Shanghai	Anime lover	Likes JK dresses	Loves figures	She loves to try new products and share / write reviews	She is not price-sensitive and values brand and service more
25-30	Rookie white collars					

Sources: Alibaba operations experience; Bain analysis

Consumption preference: It is an important dimension that reflects the cultural circles, interests and hobbies, lifestyles, emotional and social needs of consumers. Coupled with real consumer behaviors in different dimensions (e.g., based on browsing, add-to-cart, purchased category and cross-category purchase behaviors), it can help merchants identify the consumers' cultural circle types and lifestyle preferences, then understand and capture "what the consumers like".

Vanguard degree: It is defined based on consumers' acceptance and sensitivity towards new trends, styles, categories, and products in different industries. The identification of vanguards allows merchants to understand "how much consumers like" a certain style, category, or trend.

Consumer decision-making preference: By gaining insights into the influence of price, selling tactics and other decision criteria of consumers' purchasing behaviors, merchants can know "how consumers buy".

Upgrade 2: The three drivers of sales growth (Penetration, Repurchase, and Average value of transactions) introduced by SCG 1.0 system are used to improve merchant operations efficiency and effectiveness. In this upgrade, on top of broader and deeper dimensions of consumer insights, we also focus on the overall improvement of short-term efficiency, mid-term effectiveness and long-term efficacy. We believe that in the new economic normal, brands not only should focus on improving efficiency and effectiveness to make investment more productive, but also build the brand longevity and refocus on creating brand moats. Therefore, this white paper will elaborate on the solutions and related 8 scenarios built upon the "1+3" model and 3E system of SCG 2.0, helping merchants move from a GMV-growth-only focus to "efficiency, effectiveness and efficacy" improvements that drive short, mid and long-term sustainable growth (see Figure 7).

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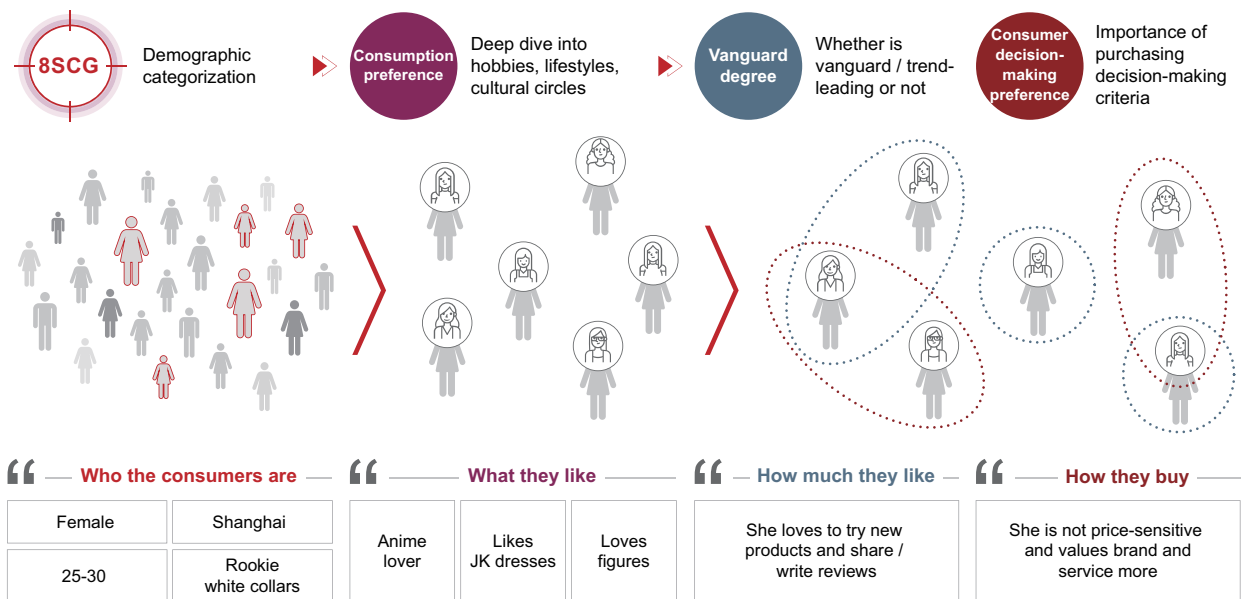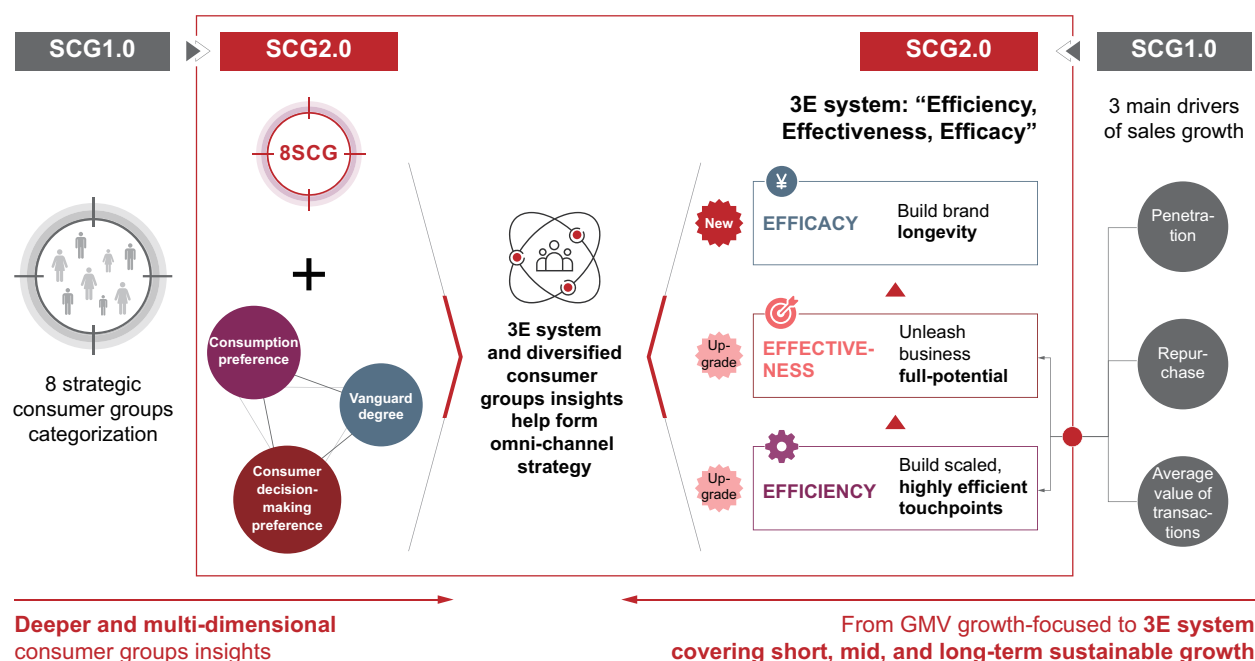**Figure 7:** SCG 2.0 emphasizes 3E "Efficiency, Effectiveness, Efficacy" to upgrade scenarios

Sources: Alibaba operations experience; Bain analysis

Consumption preference: Capturing the interests and hobbies, lifestyles and cultural circles of consumers

A two-pronged approach to capture consumption preferences comprehensively

As mentioned in Chapter 2, the Self vs. Community decision criterion reflects the individuals' quest for personality in consumption, and also a tireless search for like-minded friends. In the age of modern consumption, the so-called personality is just a clear factor that distinguishes cultural circles pursing different meanings and values. Within each cultural circle, people are constantly seeking to identify with each other. The consumption preference defines and characterizes consumers' cultural circles, interests and hobbies and lifestyles, but it is not easy to identify these consumption preferences. It requires us to view and analyze consumption behaviors in an integrated, non-siloed way, and to work with ecosystem partners to leverage Tmall's consumer group tools to define consumers' consumption preferences. Tmall shares two complementary modes - standardized exploration and customized insight generation - to provide comprehensive analyses and strategic solutions for brands *(see Figure 8)*.

Figure 8: Standardized exploration and customized insight generation are two complementary modes providing comprehensive analyses and strategic solutions for brands
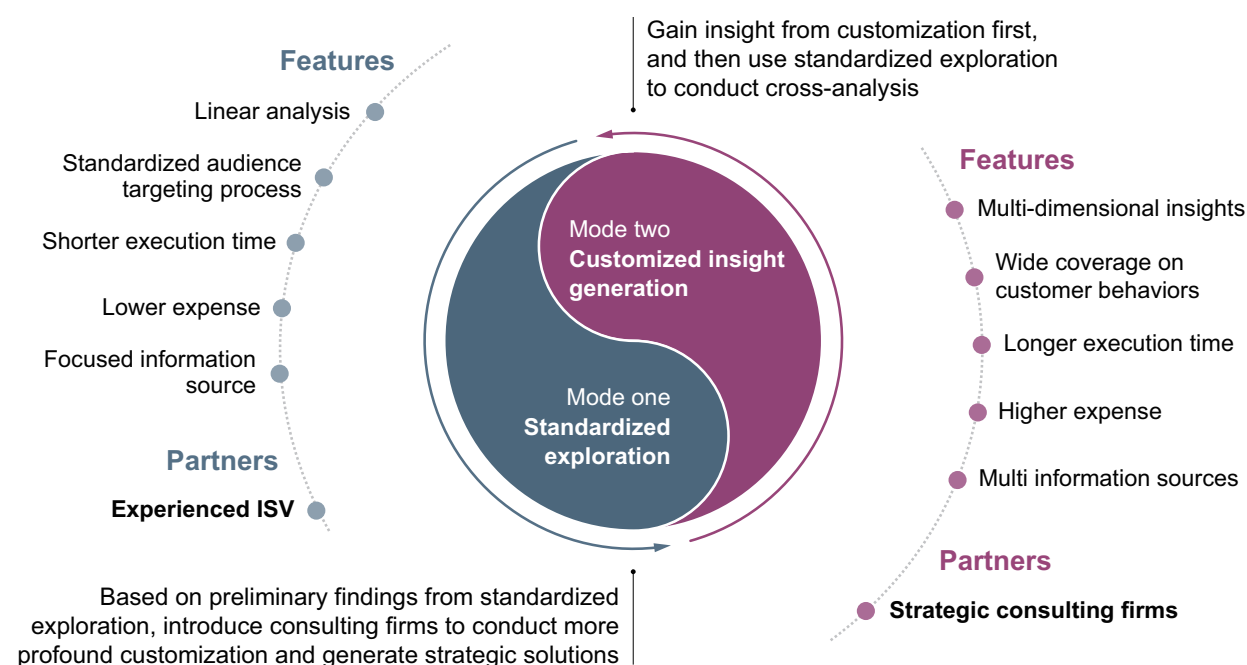
Sources: Alibaba operations experience; Bain analysis

Mode 1 – Standardized exploration: For merchants who expect shorter execution time and lower expense, they can use standardized exploration to obtain insights quickly. In this mode, Tmall and experienced ISVs will work with merchants to identify target groups with specific consumption preference, using TGI[1] analysis based on multiple Tmall data dimensions and factoring in differentiated brand positioning and market trend. Then they can run A/B tests over time to optimize the identified target groups.

Mode 2 – Customized insight generation: For merchants with sufficient time and budget, they can consider cooperating with strategic consulting firms and other ecosystem partners with deep insights into Tmall, and adopt a customized insight generation mode with multiple information sources, multi-dimensional insights and wide coverage on customers. Based on brand strategies, this mode uses digital insights and co-creation to analyze target customers' lifestyles and cultural circles. Then it integrates scientific/statistic models to generate customized insights which can be accumulated in Tmall as brand-exclusive assets.

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1   TGI, or target group index, is a ratio that divides the proportion of consumers with a certain characteristic in the target group by the same proportion in the overall population

These two modes can also be combined to provide more comprehensive and in-depth advice: based on preliminary findings from standardized exploration, merchants can leverage consulting firms to gain deeper insights, conduct more profound customization and generate strategic solutions; they can also first analyze consumers precisely with customized insights first, and then use standardized exploration to conduct cross-analysis.

Case study: Royal Canin reached its target consumers accurately based on their consumption preferences

Royal Canin is a pet food brand that offers prescription foods with specific nutrients to sick pets or pets with health and wellness needs as its key product. With the rapid development of pet industry and the popularization of the concept of raising pets scientifically, prescription pet food shows a broad market prospect. But the category relies heavily on prescription from offline hospitals with a highly concentrated target audience, making it difficult for brands to identify target consumers online. In this context, to boost its online business, Royal Canin needed to define key target groups for prescription pet food as well as their characteristics and behavior patterns, and how to reach them accurately on e-commerce platforms.

Royal Canin combined **customized insight generation** with **standardized exploration** as it tried to pinpoint target groups for prescription pet food.

Customized insight generation: First, based on in/out-site information, Royal Canin identified elderly dogs as a major segment of the pet food market with great demand for prescription pet food. According to in-site analysis, elderly dog food was a medium-sized market under rapid growth. Besides, elderly dog food could be purchased directly online without referring to offline prescriptions, and there were a plenty of penetration opportunities for Royal Canin in this market. As a result, Royal Canin decided to pinpoint the owners of elderly dogs as the target group. After the determination on key target customers, in collaboration with ecosystem partners and Tmall, and with the support from vets and senior nutrition experts, Royal Canin looked into demographics, behavior patterns and other features of owners of elderly dogs, and generated comprehensive, multi-dimensional insights into this target group for elderly dogs prescription pet food including their preferences across all pet product categories, their pre-purchase searches and post-purchase feedback on dog food, and the breeds and health issues of their elderly dogs.

Standardized exploration: On top of customized insight generation, to reach target consumers effectively on e-commerce platforms, Royal Canin needed to further understand how this target group owning elderly dogs behaved in-site. Based on multi-dimensional online analyses, including searches and purchases of dog food and cross-category purchase patterns, Royal Canin identified the online customer characteristics that strongly correlated with the aforementioned insights into the target group to pinpoint in-site target customers. Next, based on health issues in elderly dogs that were most concerned by the target group, Royal Canin communicated the most relevant selling points of prescription pet food in-site *(see Figure 9)*.

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Figure 9: Royal Canin identified online characteristics that strongly correlated with owners of elderly dogs based on multi-dimensional analysis to effectively target and communicate with in-site strategic consumer groups

Identify the in-site target group precisely based on high correlation characteristics

Translate findings from customized insights into in-site high correlation characteristics

- Female in T1/2 cities
- Age group : XX–XX
  …

- Searched **"wet food"** or **"soft"** in dog food category
- Purchased dog food with **"easy to chew"** / **"teeth cleaning" tags**
- Purchased prescription dog food
  …

Demographics

Search & purchase of pet food

Cross-category purchase

- Categories that **address pet mobility issues**, e.g., pet wheelchairs, strollers, sofas and stairs
- Pet drugs **that protect heart and kidney**
- Pet products for **skin and dental care**
  …

Map and identify high-potential in-site target consumers

Communicate efficiently in-site based on relevant health issues

Add skin-protective ingredients

Use recipes that support heart and kidney health

Skin issues

Heart & kidney issues

Communicate selling points of prescription pet food based on the most concerned health issues

Joint issues

Dental issues

Design tailored nutrition solutions to maintain muscle mass

Customize kibbles for dental care

Note: Data and charts are illustrative

Finally, after adopting a series of actions mentioned above, Royal Canin managed to increase the density of its target group by over 70%. CTR and add-to-favorites/cart rate for elderly dog food products increased by over 30% during non-promotion periods, while its flagship store's GMV reached nearly 10M RMB during promotion period, up by >100% YOY.

Vanguard degree: Identify vanguards and consumer trends in the industry

Strategic consumer groups can be segmented by vanguard degree to identify vanguards

The Diffusion of Innovations Theory, developed by E.M. Rogers in the 1960s, divides consumers into five segments based on their different characteristics in acceptance across the adoption curve of new products *(see Figure 10)*.

Innovators: These people are the first to try new products and technologies, venturesome in adopting the latest trends and self-motivated to help spread new products and technologies.

Early adopters: These people are willing to adopt new products and technologies, though slightly more cautious than innovators. They are often opinion leaders who set the trends with their strong ability to influence and impact.

Early majority: These people are curious to learn about new products and technologies. They adopt innovations and keep up with the trends earlier than the rest two segments in a cautious manner, but rarely set the trends themselves.

Figure 10: Rogers' Diffusion of Innovations Theory divides consumers into five segments

Foundation: Diffusion of Innovations Theory (Rogers)
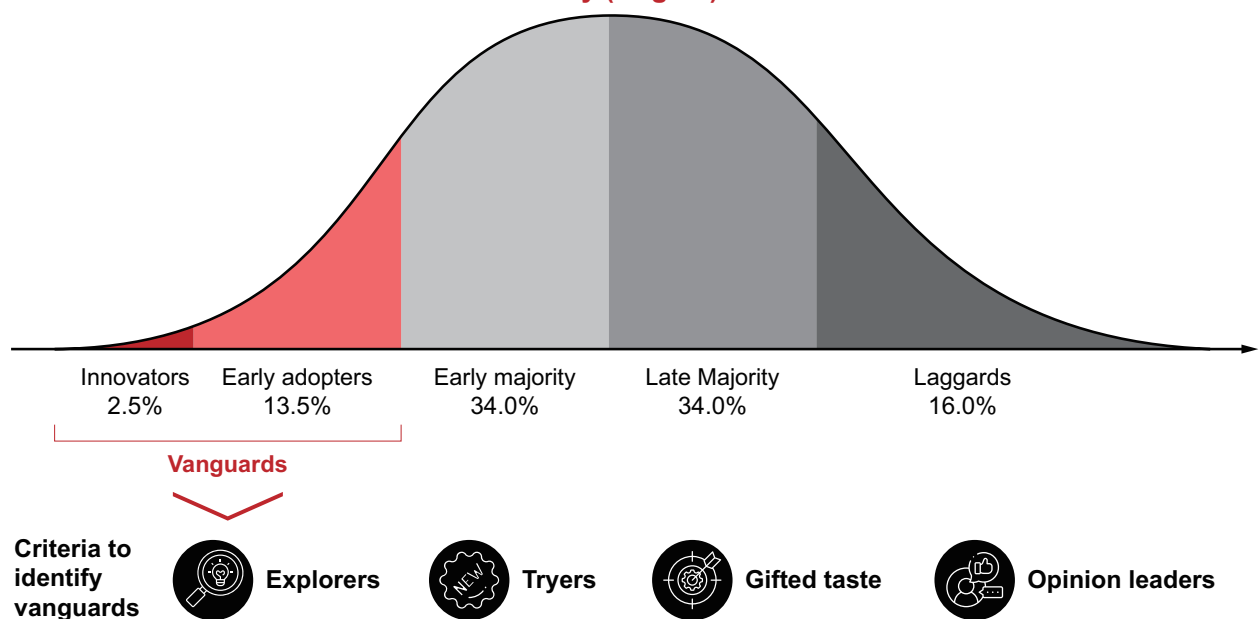
Sources: Lit research; Bain analysis

Late majority: These people are skeptical of new products and technologies and will only adopt an innovation after it has been tried by the majority.

Laggards: These people are the last to accept new products and technologies. They are reluctant to adopt innovations, sensitive to risks, bounded by existing habits and unwilling to make changes.

We group innovators and early adopters together and refer to them as vanguards. Vanguards are a group of opinion leaders who are willing to pay for what they love, invest their time and energy on in-depth research and try out innovations at the earliest time possible. They set consumer trends among their friends, if not across the world. Each and every popular or even explosive trend is supported by them. Vanguards can drive business growth while helping with the communication of brand values and propositions. Therefore, the identification of vanguards is of enormous value to both platforms and brands. Meanwhile, the criteria used to identify vanguards can be quantified in terms of behavior patterns to reflect to what extend consumers are fond of their purchased products and the amount of emotions they have put into it.
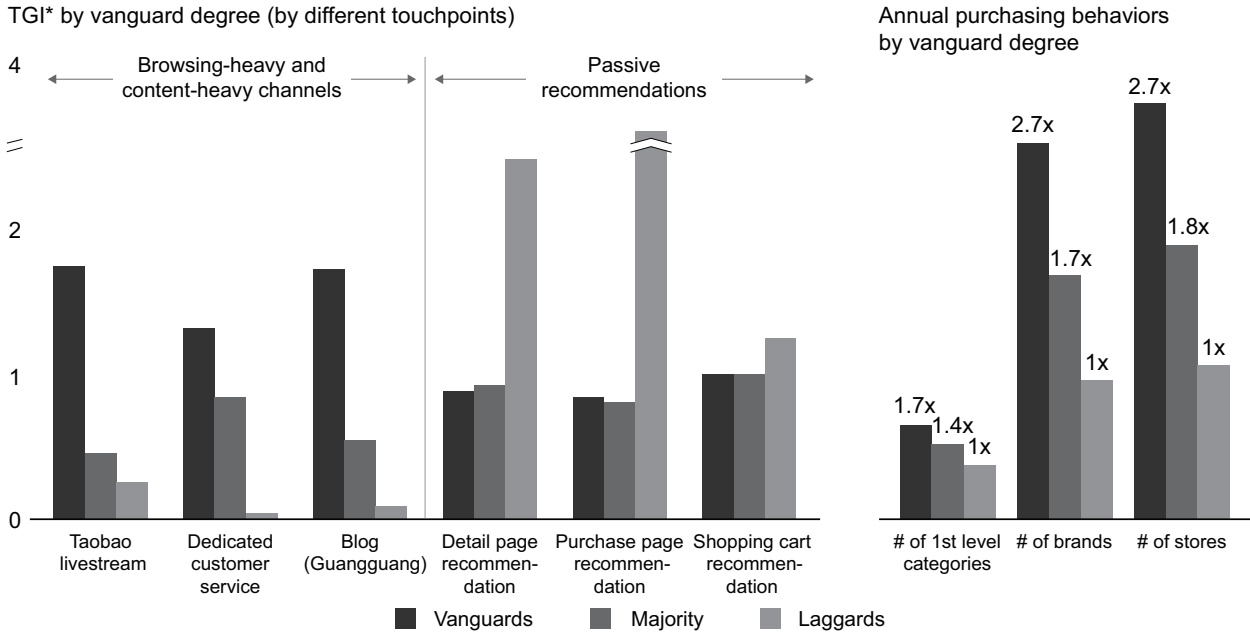
Based on Rogers' Diffusion of Innovations Theory and our deep insights into online consumer behaviors, we have pioneered in digitalizing the process by which innovations are adopted by users and referring to different purchasing decision criteria across various categories to identify vanguards by categories. We also notice that vanguards are a group of explorers, tryers and opinion leaders with gifted taste.

Explorer: Compared with majority and laggards, vanguards prefer to proactively explore in-site touchpoints that are browsing-heavy and content-heavy with longer paths, e.g., Taobao livestream, dedicated customer service, Blog (Guangguang), etc., whereas laggards tend to make purchases after being passively reached by recommendations, e.g., detail page recommendations, purchase page recommendations and shopping cart recommendations. Meanwhile, vanguards purchase more categories (1.7x vs. laggards), from more brands and more stores (2.7x vs. laggards) *(see Figure 11)*. For brand, to build awareness and promote new products among vanguards, it is more efficient to reach them through content-heavy channels and cross-brand, cross-category operations.

Tryer: Vanguards have a higher view-to-purchase conversion rate than majority (1.2x) and laggards (1.5x) for new products. Vanguards are more sensitive to new trends and also more willing to try new things; they contribute to 53% of new product purchasers across major industries *(see Figure 12)*. Brands should prioritize reaching vanguards during the early stage of new product launch for traffic efficiency.

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Figure 11: Explorers prefer to actively browse content-heavy channels and have a wider choice of categories, brands, and stores

TGI* by vanguard degree (by different touchpoints)

Annual purchasing behaviors by vanguard degree

Notes: Timeframe is 2021.7 – 2022.6; *TGI refers to specific customer groups' conversion rate divided by overall population's conversion rate, by different touchpoints
Sources: Alibaba data; Bain analysis

Figure 12: Vanguards have a higher view-to-purchase conversion rate, and also a higher share in new product purchasers

View-to-purchase conversion rate* by vanguard degree (%)

Different groups (by vanguard degree) as % of new product purchasers (%)
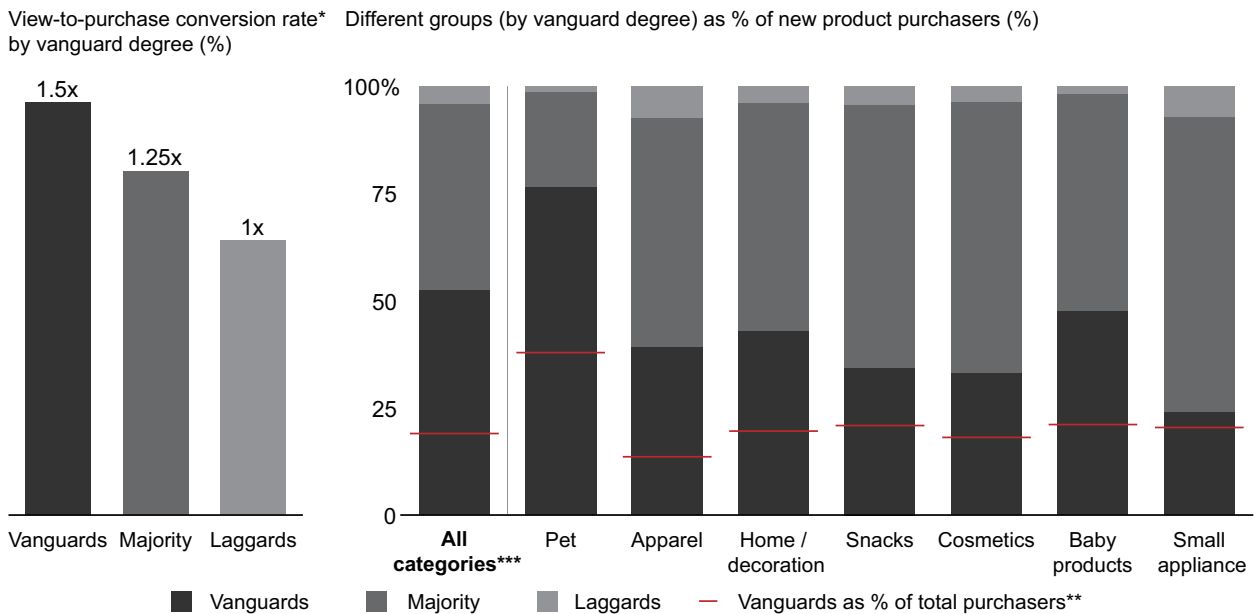
Notes: Timeframe is 2021.7 – 2022.6; *View-to-purchase conversion rate is defined as the ratio of # customer who purchased vs. # of customers who viewed in the same day for a specific product; **Total purchasers include customers of both new products and old products; ***All categories include every category with vanguard degree segmentation in Tmall internally
Sources: Alibaba data; Bain analysis

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Gifted taste: Products preferred by vanguards are more likely to become hit products. Statistics show that 50% of vanguards have purchased hit products before sales explosion *(see LHS of Figure 13)*. Brands can better grab the latest trends by observing consumption preferences and trends among vanguards.

Opinion leader: Vanguards are also opinion leaders in their cultural circles who love to write product reviews and share products to others. They on average share product links for 32 times and write non-default product reviews for 29 times per year, suggesting much more interactive behaviors than majority and laggards *(see RHS of Figure 13)*. Brands can have a greater impact on cultural circles through vanguards.

Brands can form customized vanguards through adjustment and customization along the four dimensions mentioned above based on their own needs. For example, brands that would like to gain insights into industry trends through vanguards can double down on the identification of people with gifted taste who know best about what is trending in the industry. Meanwhile, brands that would like to drive organic product promotion and seeding through vanguards can put more emphasis on finding opinion leaders so that their vanguards are most influential in their cultural circles.

Figure 13: Vanguards are better at discovering hit products, and are more willing to share products and write reviews
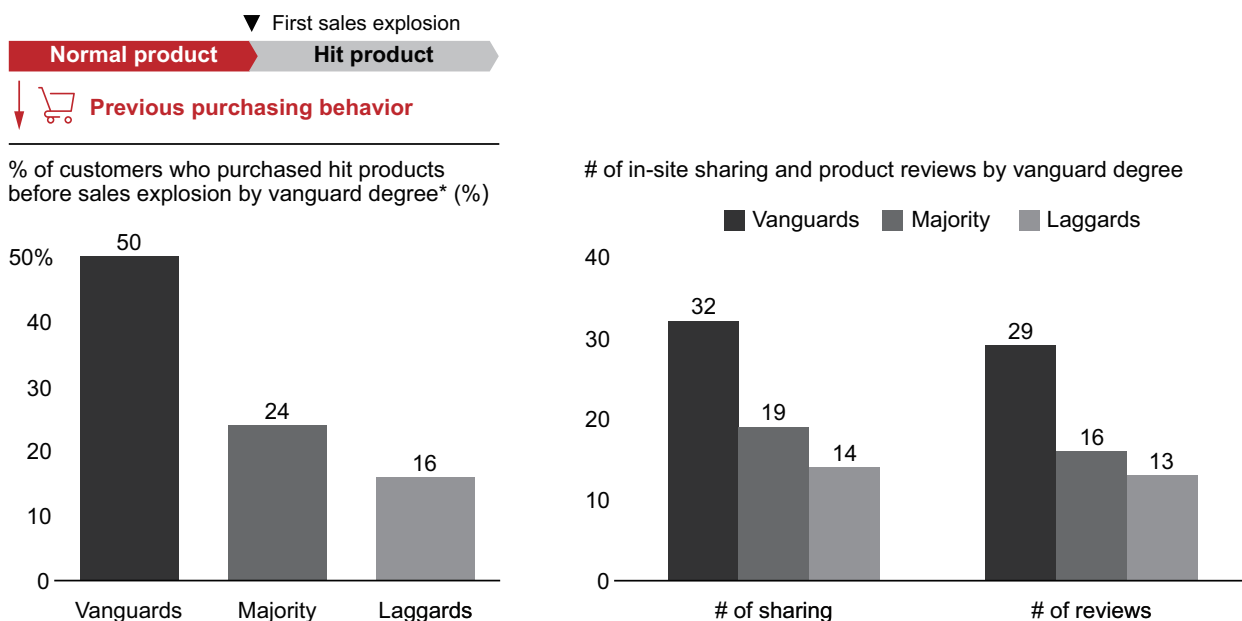
Notes: Timeframe is 2021.7 – 2022.6; *Sales explosion refers to a product being labeled as "hit product" by Alibaba team internally; the data refers to the % of consumers who purchased the product before it becomes hit product for the first time, calculated within consumer groups of each vanguard degree
Sources: Alibaba data; Bain analysis

Case study: Beaster optimized its product portfolio to reflect vanguards' preferences

Beaster is a vanguard streetwear brand with vanguards as its priority strategic consumer group due to their high revenue contribution and willingness to pay premiums. However, its product portfolio used to be out of line with their preferences. To tackle this challenge, Beaster faced two urgent problems: How to gain insights into industry trends to identify the right product styles for vanguards? How to deliver new product messages efficiently to target vanguards with the right products in place? Through partnership with Tmall and ecosystem partners, Beaster managed to effectively conduct product innovation and precision marketing, and resolve the two problems mentioned above.

Product innovation: By cross-combining vanguards with trend groups in the apparel industry and analyzing their product preferences and trends, ecosystem partners helped Beaster identify several sub-categories and shortlisted the most suitable ones based on customer size, growth, future trends, etc. Based on the styles of selected vertical opportunities, Beaster conducted inventory tracking or agile production, launched new products in accordance with brand cadence and used sales data to inform production planning *(see Figure 14)*.

Precision marketing: By drawing on marketing contents adopted by hit products in the same sub-category and content recommendations from ecosystem partners, Beaster identified touchpoints and messages in line with vanguards' preferences to reach them efficiently. During the implementation process, ecosystem partners helped Beaster break down media target, monitor media effectiveness and adjust media strategy in real time to reach target vanguards efficiently *(see Figure 15)*.

By adopting the aforementioned solutions, Beaster achieved a 10%+ increase in vanguards density, with new sweatshirt products contributing 80% of total sweatshirt GMV and a ~20% increase in ticket size during promotion periods.

Figure 14: Beaster filtered vertical opportunities to facilitate product mix optimization based on vanguards' characteristics

Identify target consumer groups

Category trend groups ✕ **Apparel vanguards**

China-Chic

......

Street style

Vanguard degree filtering

Product preference | | | | **Future trend**

Filter vertical opportunities

Urban Techwear

Drop shoulder

Doodle

Filter criteria

Size

Growth

Future trend

Hip-hop

......

Laser

Facilitate product mix optimization based on trends

Sales and inventory tracking, agile production

Note: Data and charts are illustrative

Figure 15: Beaster identified and developed content in line with vanguards' preferences

Vanguards preferred content

| **Urban Techwear** | **Doodle** | **Laser** | … … |

Futuristic, tech

Casual, leisure

Trendy, dazzling

Ribbon

Multi pockets

Style with doodles

Style with laser elements
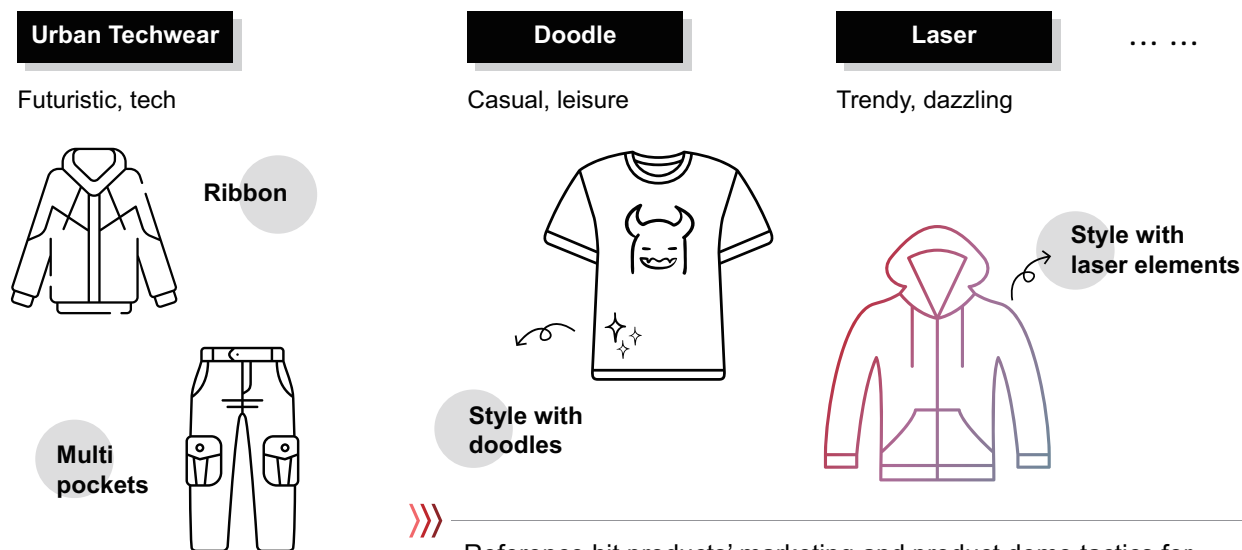
》》 Reference hit products' marketing and product demo tactics for optimization, combining with promotion tactics such as discount and cash back, etc.

Note: Data and charts are illustrative

Consumer decision-making preference: Precise customer-product matching based on purchasing decision criteria

Consumer decision-making preference captures customer groups' preferences for decision criteria, including prices, promotions, selling tactics, services, etc.

As discussed in Chapter 2, consumers demonstrate conflicting decision processes and results for different categories, sometimes practical and sometimes picky: they are willing to pay extra for products related to their interests, passions and lifestyles, while choosing cheaper substitutes with better value for money for products they do not care about or are not interested in. Consumer decision-making preference refers to customer groups' preferences for decision criteria when they make purchases, including prices, brands, selling tactics, services, etc. For example, we can segment customers into five major categories based on their promotion participation and product value preference:

Basic deal picker – prefer value for money, with high promotion participation;

Basic buyer – value practicality, with low promotion participation;

Quality buyer – look for both value for money and quality, with low promotion participation;

Exquisite deal picker – pursue exquisite quality, with high promotion participation;

Luxury buyer – shop for ultimate experience, with low promotion participation *(see Figure 16)*.

Figure 16: Customer groups are categorized based on insights into their preferences for decision criteria, including prices, brands, selling tactics, services, etc.
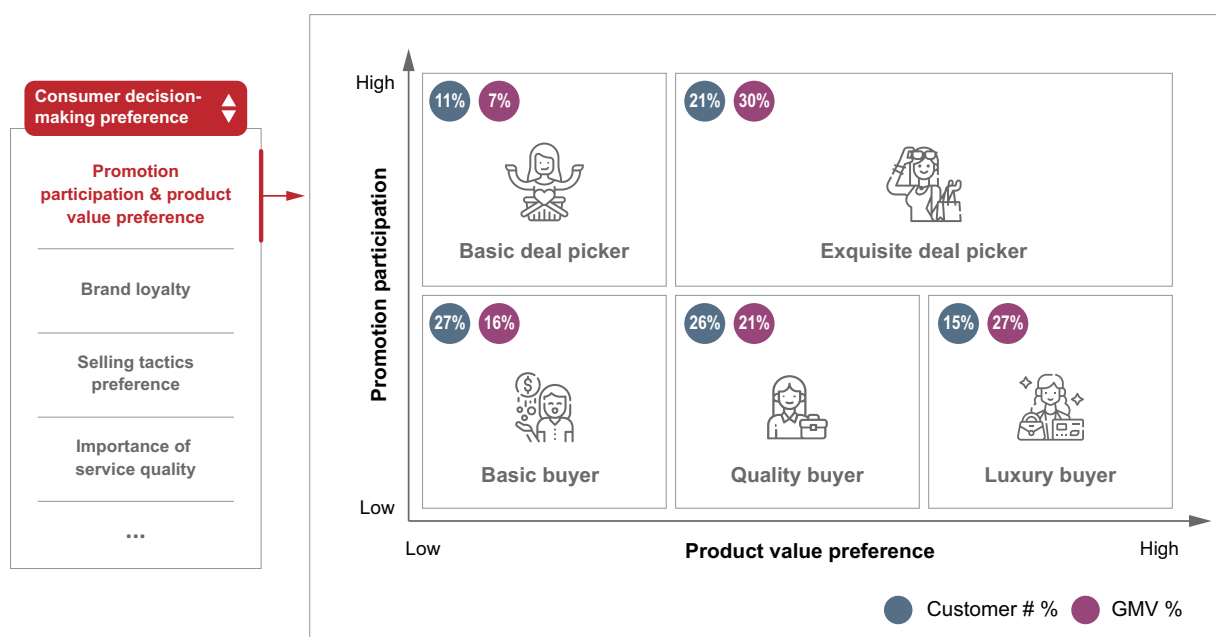
Note: Timeframe is 2021.7 – 2022.6
Sources: Alibaba data; Bain analysis

Case study: DeLonghi adopted targeted operations strategies based on consumer decision-making preference

DeLonghi is an international coffee machine brand with brand premiums. It has enormous growth opportunities since the overall penetration of the coffee machine industry in China is still relatively low. Its three-year sales growth target was well above the organic growth rate of the industry, and thus it needed to be strategically enabled by ecosystem partners and Tmall for more precise marketing solutions to help boost business growth.

DeLonghi adopted a two-step approach to achieve volume growth and ASP increase at the same time *(see Figure 17)*.

Step 1 – Customer-product matching: Cross-combined target customer groups by different products, occasions, contents and consumer decision-making preferences to test in-site CTR, action rate, ROI and other marketing metrics, and created customer segments according to test results.

Figure 17: DeLonghi split consumer decision-making preference groups into more precise segments with targeted marketing strategies
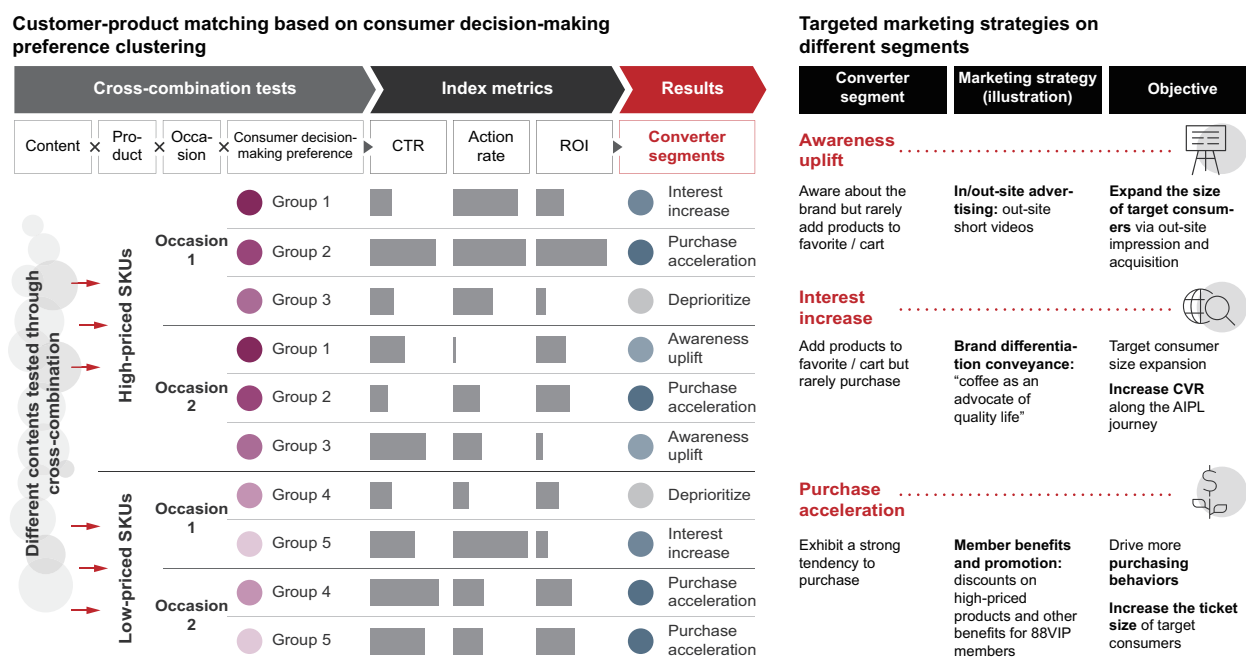
Note: Data and charts are illustrative

Step 2 – Targeted marketing strategies: Set different marketing objectives for each customer segment and adopted targeted marketing strategies with tailored products and contents to achieve these objectives. For instance, for customer groups with high CTR and low action rate, who were aware of DeLonghi but rarely added products to favorite/cart, DeLonghi resorted to in/out-site advertising to expand the size of target consumers via out-site impression and acquisition. For customer groups who added products to favorite/cart but rarely purchased, DeLonghi tried to convey its differentiated selling points to expand the size of target consumers while increasing conversion rate. And for customer groups with high CTR, action rate and ROI, who already exhibited a strong tendency to purchase, DeLonghi leveraged member benefits and promotions to drive more purchase behaviors based on their consumer decision-making preferences.

By adopting the aforementioned solutions, DeLonghi achieved increased traffic with >10M out-site impressions before and during the promotion period, as well as a ~300% increase in in-site marketing conversion across core occasions vs. last promotion. Its growth rate in consumer mindshare index was ~10% higher vs. industry average.

Chapter 3

Strategic consumer groups 2.0 enhances efficiency, effectiveness, and efficacy

Strategic consumer groups 2.0 has unlocked an upgrade to eight scenarios of brand operations

Facing today's consumers, efficient brand operations has become increasingly challenging; brands usually have the following pain points in terms of where to play, how to win and long-term operations:

Where to play:

- How to define the right brand value propositions?

- How can a new brand find and resonate with its seed users while fulfilling their functional needs?

- How to identify high-potential consumer groups for more growth opportunities given deep penetration among existing consumer groups?

How to win?

- How to instantly capture the latest trends in cultural circles and sub cultural tribes and reflect them in new product development and communication strategies early on?

- How to unleash the potential of products with higher price premiums through fine-grained customer-product matching?

- How to accurately pinpoint target consumers in e-commerce platform? How can insights generated from e-commerce facilitate omni-channel marketing investment?

- How to uplift consumer repurchase and loyalty through fine-grained operations?

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Long-term operations:

- How to understand real-time brand penetration and operational performance among target consumers for timely and effective business operations?

- What is the growth potential and tipping point of investment efficiency for new products?

To address the above pain points, Tmall and Bain jointly distilled eight operational scenarios based on SCG 2.0 system. Among the eight scenarios, brand positioning and customer acquisition address the question of "where to play", while product innovation, customer-product matching, precision marketing and brand loyalty answer the question of "how to win". Long-term tracking and investment decision are two scenarios to address how brands can achieve "long-term operations". By drawing on Tmall's FAST X NEO[2] systems, we can evaluate, track and measure the short-term effectiveness and long-term efficacy of consumer operations across these eight scenarios *(see Figure 18)*.

Figure 18: SCG 2.0 draws on FAST X NEO systems to provide solutions that cover omni-channel, end-to-end scenarios
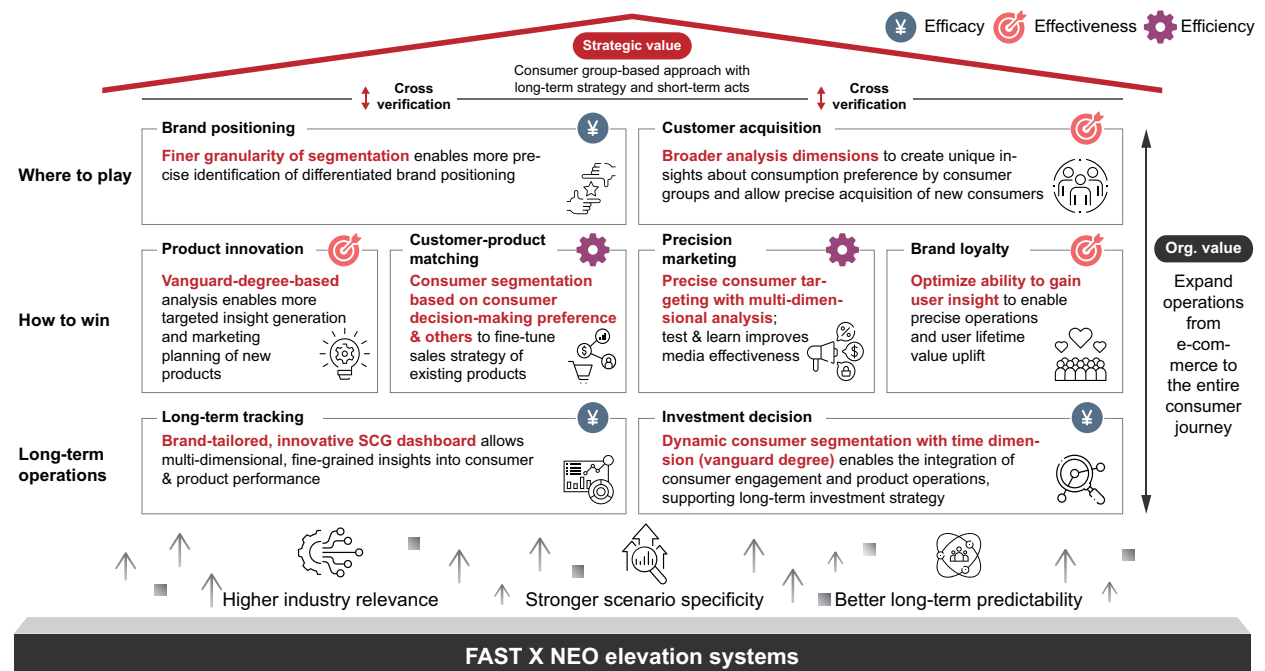
Sources: Alibaba operations experience; Bain analysis

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2   FAST and NEO are brand evaluation systems launched by Tmall, where FAST system is used to evaluate the health of consumer operations, and NEO system is used to evaluate the brand mind-share

Brand positioning: Multi-dimensional, fine-grained customer segmentation enables brands to identify target groups more precisely in a specific market and deliver differentiated value propositions.

Customer acquisition: Broader dimensions and insights allow brands to use or customize unique insights about consumption preference by consumer groups, thus acquiring new consumers more precisely and expanding to broader customer groups.

Product innovation: Analysis of vanguard degree, which is closely related to new product trends, enables brands to define new product development and design blueprint centered around consumers, and make effective plans for new product development and marketing.

Customer-product matching: Consumer segmentation by consumer decision-making preference along dimensions such as product value preference and promotion participation helps brands match products at various price points with consumers with corresponding purchasing needs and willingness to pay, and improve premiums and profit margins by developing more reasonable strategies including pricing, promotion and product bundling strategies.

Precision marketing: Precise consumer targeting with multi-dimensional analysis allows brands to gain deeper insights into target consumers, create emotional resonance with them through efficient communication, and improve marketing effectiveness with a test and learn approach.

Brand loyalty: Brands will have an improved ability to define customers' intention and predict their behaviors for more precise consumer analyses and operations, enabling a deeper connection with consumers and an uplift in loyalty and user lifetime value.

Long-term tracking: To help brands monitor and track business performance, a brand-tailored, innovative strategic consumer groups dashboard is launched to provide multi-dimensional, fine-grained visualization of consumer and product performance, helping brands gain more insights and make timely improvements through results review.

Investment decision: The dynamic consumer segmentation by vanguard degree introduces a time dimension to combine the product life cycle and consumer growth curve on top of the industry/category dimension, which integrates consumer engagement and product operations, optimizes resource investment, and supports long-term product investment strategy.

Compared with the version 1.0, SCG 2.0 features higher industry relevance, better long-term predictability, and stronger scenario specificity. From a strategic perspective, the eight scenarios of SCG 2.0 provide a consumer group-based approach to improve brand's business performance with both short-term acts and long-term strategy. For organizational value, SCG 2.0 also extends the digital consumer operations strategy from e-commerce only to cross-functional, end-to-end scenarios.

Industry relevance: Consumers' decision-making patterns differ by category. SCG 2.0 incorporates the differences between various industries across 1+3 dimensions, providing brands with the most relevant industry insights.

Long-term predictability: For brands, insights on customers not only support current operations, but also benefit future business. Taking the vanguard degree as an example, SCG 2.0 produces more predictive advice by incorporating insights on consumer behavior trends, helping brands capture industry trends.

Scenario specificity: In brands' digital transformation process, it is essential to upgrade organizational operating model with consumer digitalization. SCG 2.0 provides multi-dimensional analysis and can be applied in different digital transformation scenarios for various departments and functions, including brand strategy, product development, brand marketing and sales activation.

With the above three features, SCG 2.0 system can bring broader, deeper and future-oriented insights for brands and cover omni-channel, end-to-end scenarios, enhancing the efficiency, effectiveness and efficacy for brands and helping them achieve long-term efficacy while improving short-term efficiency *(see Figure 19)*.

Figure 19: SCG 2.0 enhances the efficiency, effectiveness, and efficacy

Sources: Alibaba operations experience; Bain analysis

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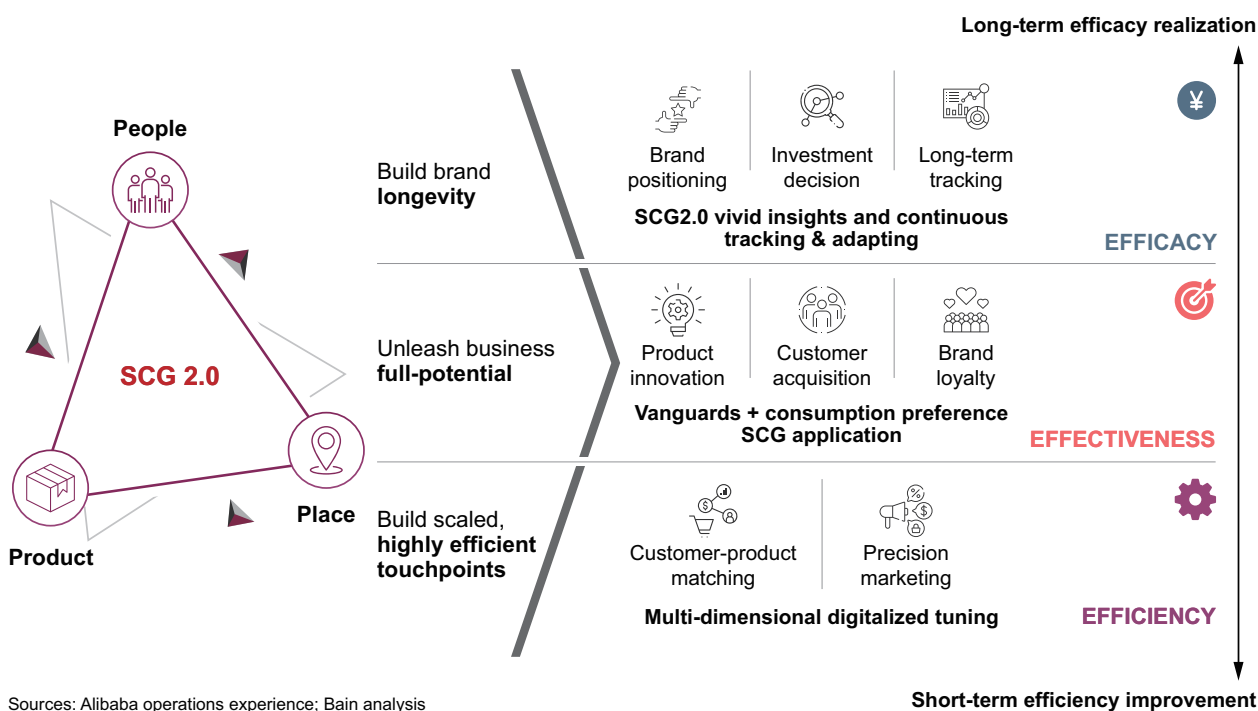
Implementation mechanisms and case studies of upgraded scenarios

In this section, we will elaborate on the implementation mechanisms behind the eight scenarios and corresponding case studies, and hope this can provide inspirations to merchants.

▌Brand positioning: Identify brand's target customer groups and pricing strategy and develop value propositions

Implementation mechanism

- **Merchant:** Define brand mission, vision and strategic direction; provide out-site data

- **Ecosystem partner:** Analyze in/out-site information to co-create positioning-related decisions with the merchant

- **Tmall:** Synthesize digital insights on category buyers and strategic consumer groups as inputs; provide category product information

Case study

A consumer electronics brand planned to launch a robot vacuum cleaner sub-brand and debut new products online, requiring it to identify target customer groups, price positioning and value propositions. The brand worked closely with Tmall and the ecosystem partner and took the following steps:

Step 1 – **Identified target consumers.** The brand made a high-level selection of target groups based on its mission and vision, and at the same time, analyzed the segments and characteristics of consumer electronics customers based on Tmall SCG 2.0 system. With the above consumer groups analyses, the brand identified its core customers and collaborated with the ecosystem partner to gain deeper insights into these consumers, distilling several target groups such as delicate lifestyle lovers and digital enthusiasts *(see Figure 20)*.

Step 2 – **Aligned the price positioning.** The brand adopted a two-pronged approach of "price benchmarking" and "consumer analysis": on one hand, it benchmarked with the pricing data and sales performance of this category; on the other hand, it studied the price band distribution and trend of the products purchased by target groups. Then the brand measured target groups' level of acceptance of its products' pricing, and developed a holistic pricing strategy by combining it with the brand cost structure and profit expectations.

Step 3 – **Set the value propositions.** The brand worked with the ecosystem partner to study the information that consumers compared when browsing or buying products of the same category, analyze what consumers were interested in (e.g. energy consumption, size, maintenance) and memorized (e.g. brand, function, occasion) about the products, and then combined the insights with target groups' characteristics and the brand's price positioning to set the value propositions.

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Figure 20: A robot vacuum cleaner brand analyzed category customer groups based on brand mission/vision and SCG 2.0 to identify target groups

Make a high-level selection of target groups based on mission & vision

- Age group
- Family needs
- Consumption preference

...

Analyze consumer electronics consumers based on SCG 2.0

Consumer group	Purchase intent	Age group	...
Group A	High	xx	
Group B	Mid-to-high	xx	
Group C	High	xx	
...			

Target core consumer groups and gain deeper insights

Delicate lifestyle lover

Digital enthusiast

...

- Demographics: age group, city tier
- Preferred category / brand   ○ Consumer group density
- Qualitative description   ...

Note: Data and charts are illustrative

Customer acquisition: Identify target customer groups for acquisition and develop a relevant strategy

Implementation mechanism

- **Merchant:** Identify the problems, objectives, and strengths of the brand; provide out-site data

- **Ecosystem partner:** Analyze in/out-site information to specify target groups and strategies

- **Tmall:** Synthesize digital insights on category buyers and strategic consumer groups as inputs

Case study

A professional sportswear brand had customers concentrated in autumn and winter apparel, and needed to identify the core customer groups and segments of the spring and summer product series to acquire new customers. The brand worked closely with Tmall and the ecosystem partner to take the following steps *(see Figure 21)*:
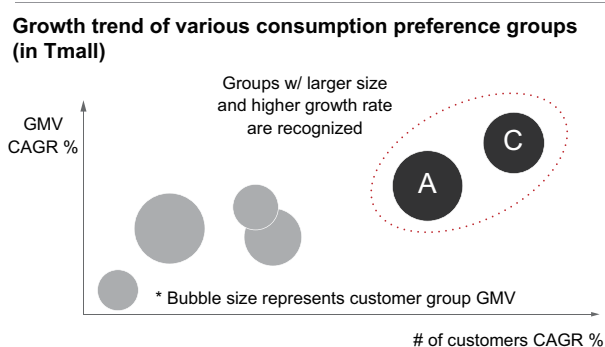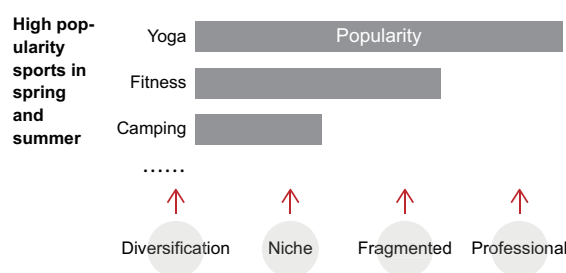
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Figure 21: A sportswear brand acquired new customers through in-site and out-site industry insights and consumption preference analysis
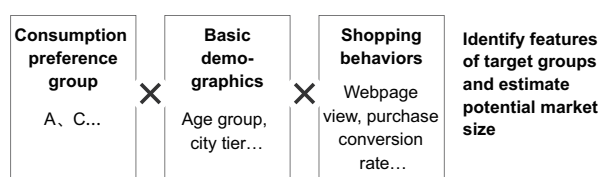
1 Recognize industry trends

Growth trend of various consumption preference groups (in Tmall)

Groups w/ larger size and higher growth rate are recognized

GMV CAGR %

* Bubble size represents customer group GMV

# of customers CAGR %

Sports popularity and trends in overall market (outside Tmall)

High popularity sports in spring and summer

Yoga — Popularity

Fitness

Camping

……

Diversification   Niche   Fragmented   Professional

2 Identify target new customers accurately

Consumption preference group A、C...	×	Basic demo-graphics Age group, city tier…	×	Shopping behaviors Webpage view, purchase conversion rate…	Identify features of target groups and estimate potential market size

Note: Data and charts are illustrative

3 Customer acquisition strategy formulation

Design selling point targeted on new customers

Brand image   "*professional design*" …   Selling point   "*Elitist*" "*Stylish*" …

"*Trendy outfit*"   "*Experiential*"

Implement strategy combining other scenarios

Product innovation   Customer-product matching   Precision marketing

Step 1 – The brand worked with the ecosystem partner to **identify industry trends inside and outside Tmall**. Inside Tmall, it selected the larger and fast-growing groups from the customers interested in sports and outdoor products to capture the growth trend of various consumption preference groups. Outside Tmall, it studied the growth patterns of sports segments to identify the high-popularity sports in spring and summer, and captured relevant trends such as diversification.

Step 2 – **Identified the target new customers accurately**. The brand and Tmall took a deep dive into consumption preference groups, basic demographics, and in-site shopping behaviors and other dimensions to precisely identify the features of target groups for new customer acquisition and estimate the potential market size.

Step 3 – **Developed the customer acquisition strategy**. The brand designed the most attractive brand selling points for the spring/summer products based on the characteristics and preferences of target acquisition groups and the brand's positioning and advantages, and developed a comprehensive customer acquisition strategy for implementation by combining other scenarios such as product innovation, customer-product matching, precision marketing, etc.

Product Innovation: Gain insights into trends and align product innovation direction

Implementation mechanism

- **Merchant:** Define brand positioning, objectives and strengths; provide out-site data and industry trend insights

- **Ecosystem partner:** Analyze in/out-site information to advise product innovation direction

- **Tmall:** Synthesize digital insights on category buyers and strategic consumer groups as inputs; provide product parameters and information
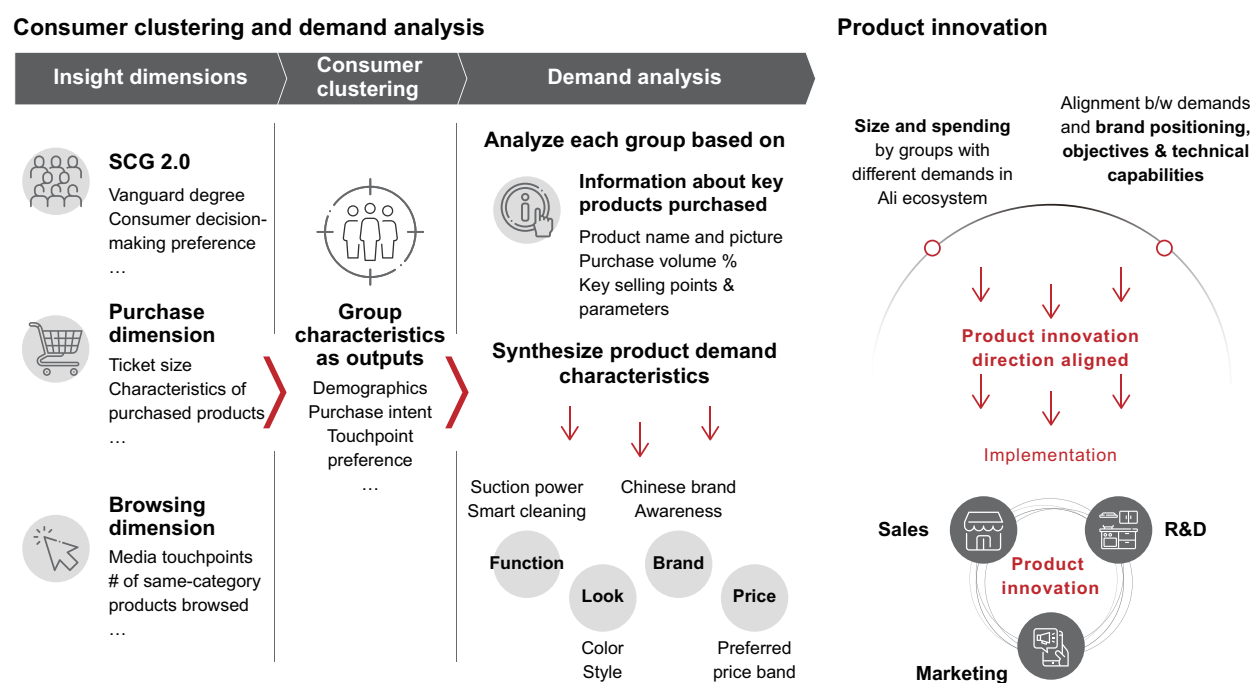
Case study

As consumer needs for products had been changing significantly, a kitchen appliance brand needed to analyze consumer demands to develop new products *(see Figure 22)*. The brand worked closely with Tmall and the ecosystem partner to take the following steps:

Step 1 – **Consumer clustering and demand analysis.** The brand gained insights into consumers across multiple dimensions, from SCG 2.0 (e.g., vanguard degree, consumer decision-making preference), purchase dimension (e.g., ticket size and characteristics of purchased products) to browsing dimension (e.g., media touchpoints, number of same-category products browsed), to cluster consumers and identify the characteristics of each group as outputs, including basic demographics, purchase intents, touchpoint preferences, etc. Then the brand analyzed information about key products purchased by each group (including product name and volume share, key selling points and parameters, etc.). With the above insights factored in, the brand synthesized the demand characteristics and trends of each consumer group for this category, covering product function, look, brand, price band, etc.

Step 2 – **Product innovation.** The brand and the ecosystem partner decided on the product innovation direction by considering both the size and spending of each group identified in the previous step in Ali ecosystem and the alignment between their demands and the brand's positioning, objectives and technical capabilities, and then facilitated the implementation of R&D, marketing and sales of new products.

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Figure 22: A kitchen appliance brand developed new products based on consumer demand analysis

Consumer clustering and demand analysis

Product innovation

| Insight dimensions | Consumer clustering | Demand analysis |

SCG 2.0
Vanguard degree
Consumer decision-making preference
…

Purchase dimension
Ticket size
Characteristics of purchased products
…

Browsing dimension
Media touchpoints
# of same-category products browsed
…

Group characteristics as outputs
Demographics
Purchase intent
Touchpoint preference
…

Analyze each group based on

Information about key products purchased
Product name and picture
Purchase volume %
Key selling points & parameters

Synthesize product demand characteristics

Suction power
Smart cleaning

Chinese brand
Awareness

Function

Brand

Look
Color
Style

Price
Preferred price band

Size and spending by groups with different demands in Ali ecosystem

Alignment b/w demands and **brand positioning, objectives & technical capabilities**

Product innovation direction aligned

Implementation

Sales

R&D

Product innovation

Marketing

Note: Data and charts are illustrative

Customer-product matching: Gain insights into customers' product and value preferences to improve the sales strategy of existing products

Implementation mechanism

- **Merchant:** Identify brand problems; provide category experience and product data

- **Ecosystem partner:** Analyze in/out-site information and execute consumer segmentation, screening, and cross-combination tests

- **Tmall:** Synthesize digital insights on category buyers and strategic consumer groups as inputs; provide product pricing information
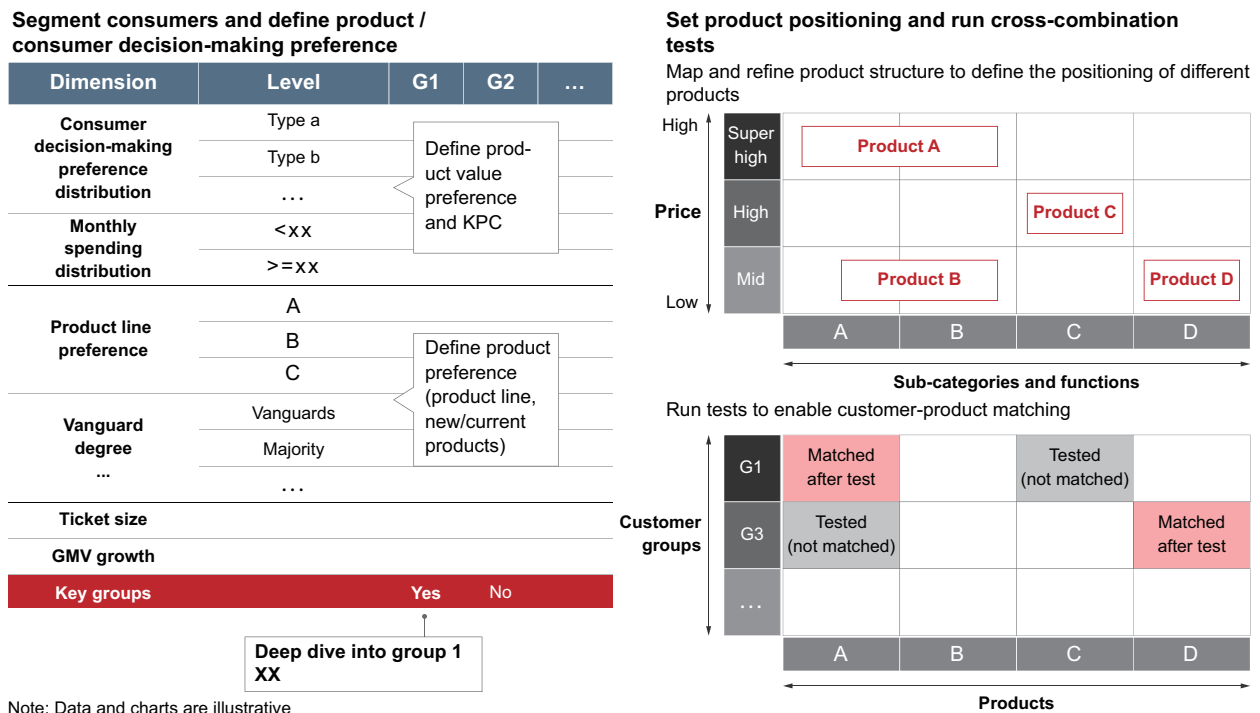
Case study

A pet brand needed to identify prospective customers who had preference for high-value products for more precise customer-product matching to win against lower-priced competitors *(see Figure 23)*. The brand took 2 steps to achieve precise customer-product matching:

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Step 1 – **Segmented and characterized customers**. The brand segmented its existing customers based on basic demographics, and then learned about the characteristics of each group based on SCG 2.0 and purchase dimension. On this basis, it selected the groups with high contribution to the brand and great growth potential as key groups, and made a deep dive into these key groups with a focus on their product preferences and consumer decision-making preferences.

Step 2 – **Set the product positioning and ran cross-combination tests** after identifying and studying the key and potential groups. The brand first mapped and refined the product structure to define the positioning of different products (including product price bands and sub-categories/ functions, etc.). On this basis, it selected the proper products for cross-combination tests with the identified key groups, and used the test results to optimize the sales strategy of existing products more precisely.

Figure 23: A pet brand gained insights into customers' product preferences to improve the customer-product matching

Segment consumers and define product / consumer decision-making preference

Dimension	Level	G1	G2	…
Consumer decision-making preference distribution	Type a			
	Type b			
	…			
Monthly spending distribution	<xx			
	>=xx			
Product line preference	A			
	B			
	C			
Vanguard degree …	Vanguards			
	Majority			
	…			
Ticket size				
GMV growth				
Key groups		Yes	No	

Define product value preference and KPC

Define product preference (product line, new/current products)

Deep dive into group 1 XX

Note: Data and charts are illustrative

Set product positioning and run cross-combination tests

Map and refine product structure to define the positioning of different products

Run tests to enable customer-product matching

▌ Precision marketing: Gain deep insights into in-site vanguards' preferences and connect in-site with out-site to refine communication, channels and touchpoints

Implementation mechanism

- **Merchant:** Provide current consumer group data and category experience

- **Ecosystem partner:** Detail out in/out-site vanguards' characteristics to iterate touchpoint and communication strategies

- **Tmall:** Synthesize digital insights on category buyers and strategic consumer groups as inputs

Case study

Facing intense industry competition, as well as weak growth in some categories, and unclear selling points of certain products, an international beauty brand needed to identify target groups and improve in/out-site precision marketing and communication strategies to drive long-term growth while staying in the vanguard. To achieve efficient marketing, the brand developed an end-to-end process from targeting to reaching consumers.

Step 1 – **Precise consumer targeting with multi-dimensional analysis**. In this step, the brand not only factored in the current consumer groups, category experience and brand mission/values, but also used SCG 2.0 to choose the consumption preference groups with lifestyles related to beauty category and like-minded hobbies. Then the brand superimposed the above groups with the vanguards who were able to project and set the industry trends and identified the intersection as the key groups at this stage.

Step 2 – After identifying the target audience for marketing, the brand generated the **in/out-site, multi-dimensional insights** into target groups. It started from the demographics to analyze the distributions of gender, age group and other attributes to identify the under-covered groups. Next, the brand defined target groups' preferences in cosmetics, identifying the sub-categories/ brands valued by each target group and their preferred selling points and functions to tap into their demands for efficacy. In addition, the brand looked at additional perspectives about the browsing, purchase, consumer decision-making, and word-of-mouth preferences, gaining comprehensive insights into the key groups across multiple dimensions. The brand also connected out-site behaviors and needs with those in-site to understand the key groups' content and vanguard trend preferences on social media, then refined its selling point strategy, developed messages based on touchpoint features, and built a closed-loop in/out-site. On this basis, the brand analyzed the traffic distribution and touchpoint preferences of target groups, compared the brand traffic contributed by each touchpoint, and identified the key touchpoints to close the brand's traffic gap efficiently. Finally, the brand tracked the implementation effectiveness against marketing objectives over time to iterate and optimize its strategic planning.

▌Brand loyalty: Develop a strategy to enhance brand loyalty and user lifetime value

Implementation mechanism

- **Merchant:** Identify brand problems and objectives; provide out-site data and resources

- **Ecosystem partner:** Refine private domain customer targeting and analysis; design and advise loyalty enhancement strategies

- **Tmall:** Generate digital insights on category buyers, strategic consumer groups and in-site brand members as inputs; provide member engagement tools and experience sharing

Case study

An apparel brand deepened its connection with consumers and improved consumer loyalty and user lifetime value through member acquisition, private domain operations and repurchase stimulation *(see Figure 24)*. Specifically, the brand took the following steps:

Step 1 – The brand focused on **precise member acquisition** to convert consumers into members, thus expanding the customer base in private domain. To identify the target groups for member acquisition, the brand prioritized non-member buyers that accounted for a large share of total brand customers, and expanded to other potential customers with SCG 2.0-based analyses and insights. When delivering the member acquisition messages, the brand connected in-site with out-site to optimize media channels and funnel the traffic from out-site. It also communicated member benefits in a more targeted way based on SCG 2.0 insights, e.g., emphasizing new product sample tryout for vanguards, and providing member discounts to value-for-money seekers.

Step 2 – The brand performed **fine-grained private domain operations** after converting consumers into members. Based on the analysis of the activity and conversion rate by member types and touchpoints, it targeted the key touchpoints to improve operations efficiency. Meanwhile, it developed the concept of cultural circles that were in line with its brand positioning among members by leveraging fan clubs and offline events, such that their emotional needs could be met, and this enabled identity connection between the brand and customers.

Step 3 – The brand enhanced consumer loyalty by **stimulating repurchases.** Supported by the ecosystem partner, the brand clustered consumers based on SCG 2.0 and behavioral characteristics of repurchase/non-repurchase groups, analyzed the key products they purchased/repurchased and thus generated strategies to stimulate repurchases.

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Figure 24: An apparel brand enhanced consumer loyalty and user lifetime value through multi-faceted operations
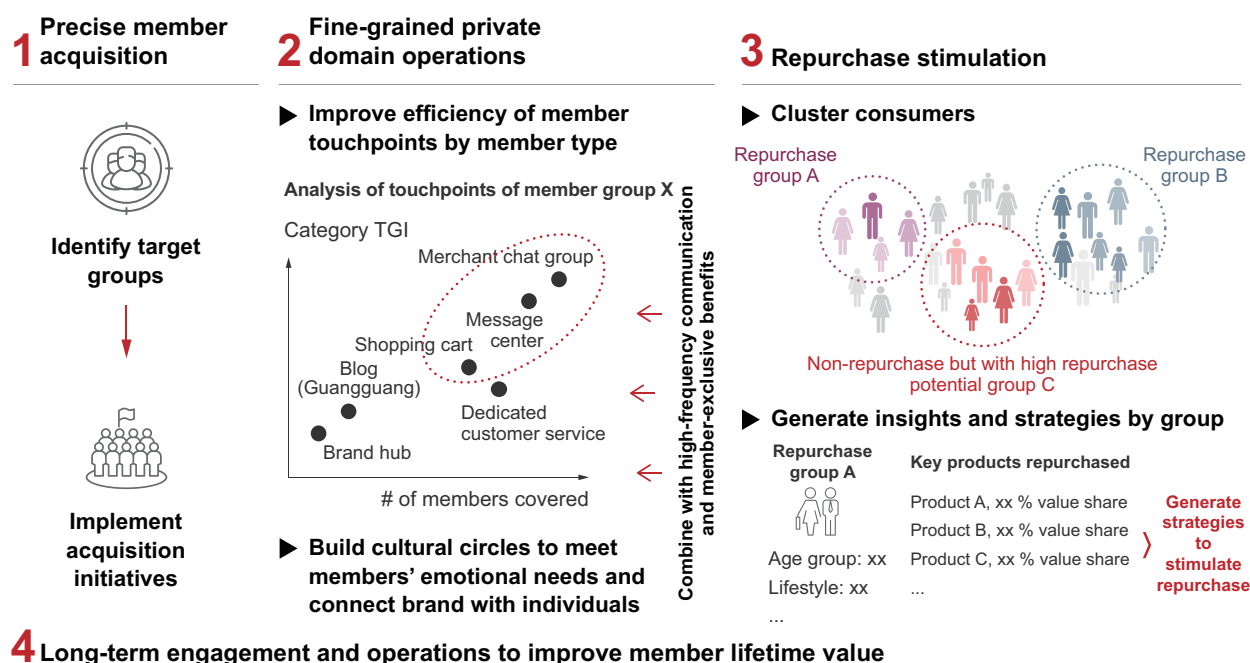
Note: Data and charts are illustrative

■ **Long-term tracking dashboard: Brand-tailored dashboard allows multidimensional, fine-grained real-time insights and tracking of strategic consumer groups**

Brands can work with Tmall and the ecosystem partner to customize the brand-tailored strategic consumer groups dashboard based on the deeper consumer insights derived from SCG 2.0. The dashboard is able to provide multi-dimensional, fine-grained visualization of consumer and product performance, helping brands monitor and track business performance, gain more insights and make timely improvements through results review *(see Figure 25)*.

The content dimensions on the dashboard can be customized and freely chosen by brands and ecosystem partners, while the dashboard tool will be provided by Tmall. After the customization is done, the dashboard can display the performance of the brands' strategic consumer groups in terms of the number of impressions, the number of orders, GMV, brand power index, etc. in the selected timeframe in line charts or other charts, as well as the analyses and insights of these strategic consumer groups. The dashboard also provides industry information for comparison and reference by brands. Combined with the external data provided by brands, the brand-tailored strategic consumer groups dashboard can not only digitally display the strategic consumer groups information, but also compare it with the target

value and the warning line set by the brands to generate automatic alerts when necessary. The brand-tailored strategic consumer groups dashboard visualizes the SCG 2.0 insights precisely, which helps brands iterate business strategies, track business performance over time and thus maximize the brand efficacy.

Figure 25: Brand-tailored strategic consumer groups dashboard allows multidimensional, fine-grained real-time insights into consumer and product performance
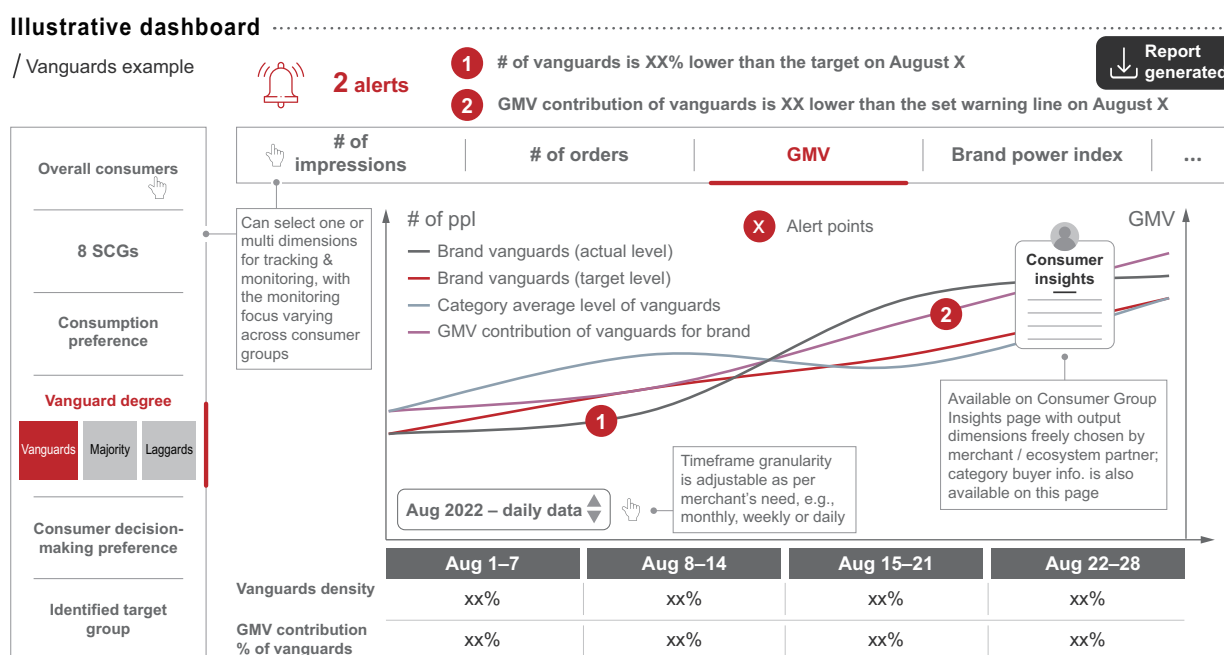
Note: Data and charts are illustrative

▌ **Investment decision scenario: Gain insights into product lifecycle stage and key strategic consumer groups performance to generate the investment decision advice**

The investment decision dashboard combines the product lifecycle curve with strategic consumer groups performance, which integrates consumer engagement and product operations, and provides investment decision advice based on both product lifecycle stage, and the consumer and product performance at the corresponding stage from a time perspective *(see Figure 26)*.

The product lifecycle curve has 5 stages - pre-launch, introduction, growth, maturity, and decline. Generally speaking, the in-site GMV will ramp up from the introduction stage, start to stabilize at the maturity stage and begin to drop at the decline stage. By analyzing the GMV of multiple brands and products within a category, Tmall summarizes and derives the lifecycle curves for the category in average/high/low cases, which are displayed in the dashboard along with the brand's

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own GMV curve in actual case. Tmall can identify the lifecycle stage and access performance of the products based on its past category experience for the brand's reference.

The prioritized strategic consumer groups vary across product lifecycle stages. For example, the vanguards with features of "tryer and opinion leader" should be prioritized by the brand at the introduction stage. But when the product enters the maturity stage, the brand should also pay attention to the majority and laggards to further improve the brand penetration among consumers. The investment decision dashboard can help brands compare their strategic consumer groups performance with the benchmarks throughout each product lifecycle stage, and provide preliminary investment decision advice regarding the category and product for the brand accordingly. The ecosystem partner can communicate with the brand based on Tmall's inputs, coupled with the brand's actual product investment budget, sales target, external channel sales data, etc., to develop a long-term investment decision strategy.

Figure 26: Generate investment decision advice based on the product lifecycle stage and key strategic consumer groups performance
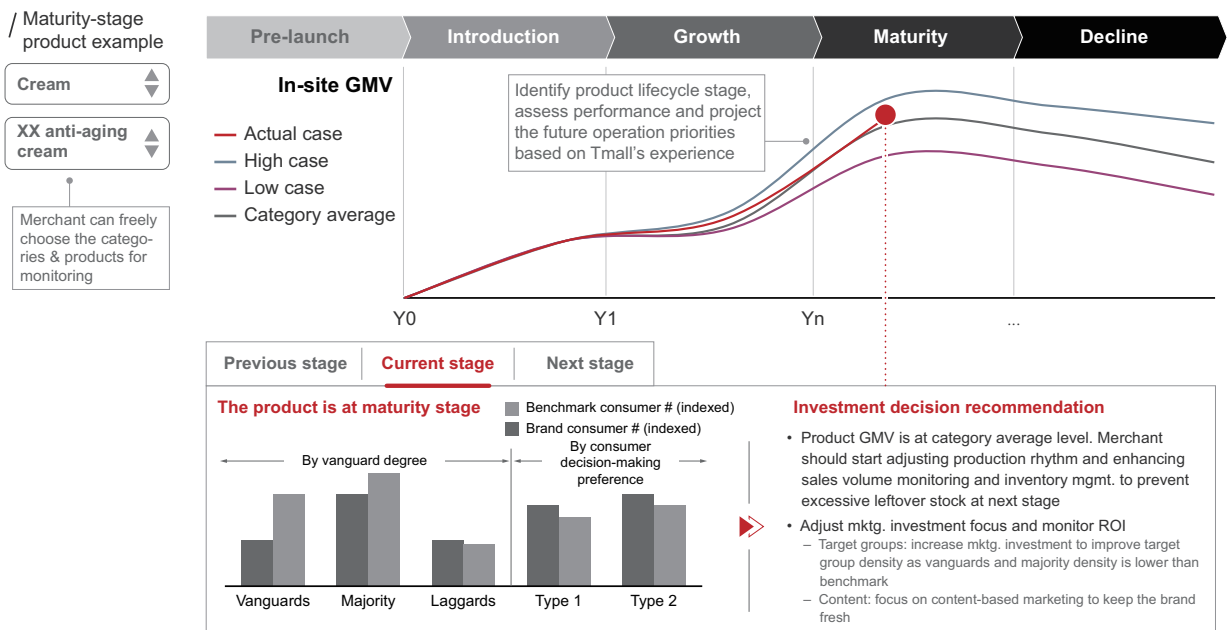
Note: Data and charts are illustrative

The vision for the future

Deep insights and continuous iterations of strategic consumer groups

In the age of neo consumption, it's critical for brands to develop a better way to win. Brands can join hands with Tmall and ecosystem partners to change the way in which departments used to explore the target consumer groups in silo and execute the operating decisions under a single scenario. With SCG 2.0 system, brands can use a SCG-focused approach that covers omni-channel, end-to-end scenarios to drive both short-term and long-term growth, achieve cross-functional decision-making alignment and collaboration and thus facilitating the implementation of digital strategy. Internally, brands can strengthen the collaboration of e-commerce, sales, and R&D departments/functions, while externally, they can improve marketing and supply chain management. Meanwhile, with the support of Tmall and ecosystem partners, brands are able to optimize brand positioning and customer acquisition capabilities, improve product innovation and new product campaigns, strengthen brand marketing and brand loyalty, and thus fuel a sustainable growth *(see Figure 27)*.

For example, the strategy department of a brand can identify target consumer groups by working with the ecosystem partner and Tmall, and embed the target group-based strategy into scenarios such as manufacturing, R&D, new product campaigns, brand marketing, and e-commerce sales. The R&D department can gain insights into the consumption trend of vanguards in target groups to ferret out new product development opportunities, which meets the needs of target groups while capturing the trend. When launching new product campaigns, brands can ramp up the sales volume at an early stage through vanguards and increase new products' penetration rapidly. In the scenario of brand marketing, brands can communicate with target consumer groups precisely based on their characteristics to increase the awareness among potential customers and enhance the loyalty of existing customers. In the scenarios of e-commerce sales and customer acquisition, brands can combine target groups with consumer decision-making preference groups to enable a precise matching between products with different positionings, prices and promotion levels and customers with different consumer decision-making preferences, to achieve a more efficient conversion.

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Figure 27: SCG2.0 upgrades from EC operations only to omni-channel, helping brand's various functional teams collaborate and implement its digital strategy

Past: only one department works with Tmall

Future: full scenario coverage, cross-functional collaboration
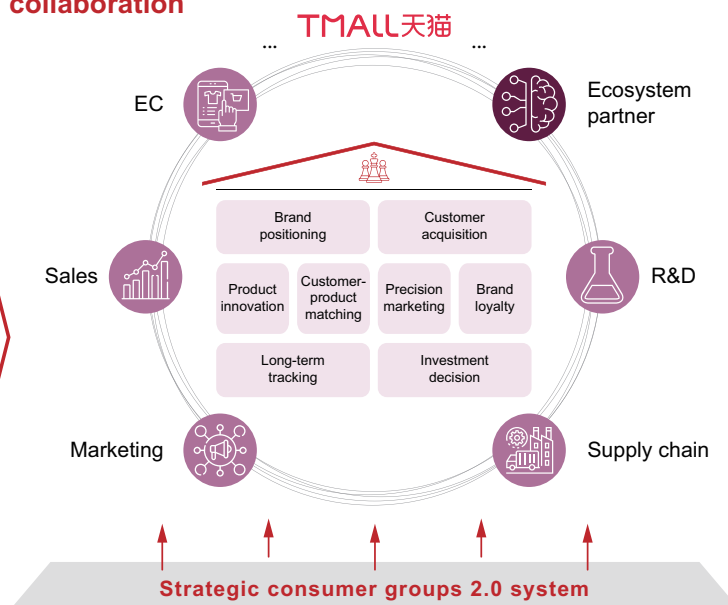
Sources: Alibaba operations experience; Bain analysis

In the future, Tmall and Bain will upgrade SCG 2.0 in three dimensions. First, we will iterate the SCG 2.0 framework, such as introducing more analytical dimensions for consumer decision-making preference groups, and realizing a segmentation of vanguards by category of even higher granularity. Second, we will look into broader dimensions for consumer group insights, including content preference, interest preference, marketing hot topic tracking, etc., to create more customized tracking solutions regarding consumer groups. Third, we will deliver the outputs related to consumer groups intelligently. That is, based on the dimensions used in previous consumer group definitions, we can help brands generate more personalized, customized consumer group framework and insights in an intelligent way. In the future, we will release the "strategic consumer groups" series of reports that provides the insights into consumer trends, and continue the in-depth analyses and iterations of strategic consumer groups across the cultural circle, geography and other dimensions.

There are simply countless opportunities to be uncovered in diverse and delicate consumption behaviors. We will be on your side along your journey to support you in understanding consumers better via identifying the target consumer groups and gaining relevant insights.

Endorsements

Yang Liu

General Manager, Merchant & Brand Strategy Department, Taobao & Tmall Industry Development and Operation Center

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Consumer centricity is a business philosophy that Tmall has always upheld. As early as 2019, Tmall joined hands with Bain to launch the eight strategic consumer groups for the FMCG industry, for the first time creating a common language of consumer groups for Tmall and Taobao platforms, brands, and ecosystem partners, providing a solid foundation for advancing brands from traffic operations to consumer-centric operations strategies. Today, the eight strategic consumer groups are not only widely known and adopted by brands and ecosystem partners in the FMCG industry, but also extended to major industries such as apparel and consumer electronics, proving the universality and guiding role of the strategic consumer groups methodology.

In the past three years, Tmall has been practicing, upgrading and iterating the consumer-centric digital operations methodology. As the COVID-19 pandemic has accelerated a massive shift towards online shopping, the DTC model underpinned by digital consumer insights and communication has become an irresistible trend; while in light of increasingly diversified and sophisticated consumer needs, brands have rising demands for consumer insights. In this context, Tmall, together with Bain and the relevant academic team of Antai College of Economics and Management (ACEM) of Shanghai Jiao Tong University, has encompassed broader dimensions to create the new Strategic Consumer Groups 2.0 (SCG 2.0) system after three years of exploration, application, and experience accumulation.

SCG 2.0 has upgrades in three aspects. First, broader dimensions: while Strategic Consumer Groups 1.0 identified "who the consumers are" based on demographics, SCG 2.0 introduces three additional dimensions - consumption preference, vanguard degree and consumer decision-making preference - and supports category-specific customization, capturing consumer mindsets and behaviors across categories in a more multi-dimensional and targeted manner. Second, more comprehensive tactical guidelines: eight targeted scenarios are identified around SCG 2.0, enabling an overall improvement of short-term efficiency, mid-term effectiveness and long-term efficacy of brands. Third, stronger organizational applicability: the four dimensions of SCG 2.0 meet different consumer operations needs in scenarios such as brand positioning, product development, new product campaigns, brand marketing and sales activation, allowing brands to implement the DTC strategy across the organization using the consumer-centric approach.

Looking forward, Tmall will continue to work with Bain and more ecosystem partners, along with academic forces, to gain sharp insights into the changes of consumers and iterate the strategic consumer groups methodology to facilitate the DTC strategy transformation of brands.

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Adapting to Shifting Consumer Needs: China Online Strategic Consumer Groups 2.0 System Upgrade

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Recently, the digital age native generation has gradually become the main constituent of the consumer entity, stepping away from past consumption concepts and patterns, being both perceptual and rational, practical and picky, and self and community-oriented, and is triggering unprecedented changes in the Chinese consumer society. Brands are now facing an unparalleled level of complexity within the past 30 years, as the new generation shows diverse consumer journeys and different tastes and preferences. Facing the emerging concept of "cultural circles" and the rise of consumption symbolization, brands need to understand consumers through deeper and more diverse lens. To achieve this, Bain once again teamed up with Tmall, supported by the relevant academic team of Antai College of Economics and Management (ACEM) of Shanghai Jiao Tong University, to create the new SCG 2.0 System on top of the previous "strategic consumer groups methodology", helping brands generate vivid and deep insights of consumer characteristics with "higher industry relevance, stronger scenario specificity, and better long-term predictability", and supporting merchants in both short-term efficiency and long-term efficacy uplift.

In step 1, SCG 2.0 system has built three innovative modules - consumption preference, consumer decision-making preference and vanguard degree - by introducing multiple academic disciplines. Specifically, the market is driven by consumption preferences where the trends are set by the vanguards. These three progressive modules are well interlinked, answering questions of "what the consumers like", "how they buy" and "how much they like" respectively. It is not easy for brands to identify consumption preferences, so, in step 2, we deliver comprehensive analyses and strategy solutions to brands through two complementary modes - standardized exploration and customized insight generation. In step 3, to help brands achieve efficient operations, this report also defines eight scenarios for brands' better implementation based on SCG 2.0 system, namely brand positioning, customer acquisition, product innovation, customer-product matching, precision marketing, brand loyalty, long-term tracking, and investment decision. It will also enable brands to tackle the challenges of "where to play", "how to win" and "long-term operations" by presenting and elaborating the relevant case studies across consumer goods, consumer electronics, pet, cosmetics, apparel and other industries.

Finally, compared with SCG 1.0, the SCG 2.0 system also extends the digital consumer operations strategy from e-commerce only to cross-functional, end-to-end scenarios, aiming to enhance the efficiency, effectiveness, and efficacy for brands. In the future, Bain and Tmall will upgrade the SCG 2.0 system and release a series of reports detailing strategic consumer groups trends and insights to continue delivering in-depth analyses and iterations, helping brands adapt to the shifting consumer needs.

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Adapting to Shifting Consumer Needs: China Online Strategic Consumer Groups 2.0 System Upgrade

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In the age of neo consumption, with accelerated consumer-centric digital transformation and changing consumption entities, models and features, symbolic consumerism with social significance has emerged in China. Introducing multi-disciplinary theories such as sociology, management and communication studies can deepen our insights into consumers, and further allow us to capture comprehensive and precise consumer attributes in a scientific, data-enabled approach.

To bring these theories to life, Tmall, together with Bain and the relevant academic team of Antai College of Economics and Management (ACEM) of Shanghai Jiao Tong University, launches the SCG 2.0 system, which is a significant upgrade from SCG 1.0 system. On top of the previous eight strategic consumer groups built on demographics, SCG 2.0 improves the precision of consumer insight, identifies and defines the consumption drivers behind strategic consumer groups, supporting brands to achieve business growth and rapid iteration in a scientific and effective way.

To address the challenge of shifting consumer needs, based on FAST and NEO systems, SCG 2.0 farsightedly develops brand-tailored solutions that create sustainable competitive advantages, using an "efficiency, effectiveness and efficacy" focused approach to balance short, mid, and long-term objectives. More brands are expected to benefit from SCG 2.0 system to thrive together with confident consumers and make more positive social impact.

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Adapting to Shifting Consumer Needs: China Online Strategic Consumer Groups 2.0 System Upgrade

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Please direct questions and comments about this report via email to the contributors.

Acknowledgments

TMALL 天猫

About Tmall

Tmall (www.tmall.com) is a business unit of Alibaba Group. Founded in 2008, Tmall is committed to serving consumers who are increasingly looking for products and shopping experiences of higher quality. A large number of international and Chinese brands and retailers have settled in Tmall. According to Analysys' data, Tmall is a large third-party online and mobile commerce platform for brands and retailers in terms of gross transaction value (GMV) in fiscal year 2019, and continues to grow rapidly. For consumers, Tmall have proposed "ideal life on Tmall", the business strategy and positioning behind which is that Tmall will become the main engine of consumption upgrade in China. For merchants, Tmall is positioned as the main field for digital transformation of all brands and merchants around the world. The core parts of business operations include product innovation, brand building, channel management, and supply chain operations, and Tmall New Retail aims to restructure and upgrade every part. Tmall's vision is to be the city of quality shopping that consumers around the world love. And there is no word of online and e-commerce here, because the era of traditional e-commerce has passed, and Tmall is opening a new era of digital retail both online and offline.

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