

Chapter Three: Transformation of client relationship & migration to digital business models

B
usiness Development: Coffee Shop Franchise

Is it possible to design projects with open results? That is not easy. Especially not if the initial situation was an acute crisis. The threatening dynamics make open-ended thinking almost impossible. So you can only move forward from success to success. Yes, but it gets easier and easier and the angle of view changes from a low-light normal lens to a high-light ultra-wide-angle lens. In this project report you can read how a project mission for crisis management became a business development project. And we have the impression that this journey is not over yet. Here we present the third chapter.

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November 2020

Initial situation

The original project focus when the project was placed at the beginning of 2020 was to develop a system to increase customer satisfaction and maintain it at a high level. During past years, our customer was in a crisis. Difficulties in the management of the company led to a loss of the profitability and customer satisfaction indices.

With the outbreak of the pandemic in Brazil in March 2020, the project focus expanded. In addition to the focus on customer satisfaction, the new situation was to be used to develop possible new business models using digital tools and fundamentally increase customer loyalty. The general idea could be summarized as follows: more agility through digital services.

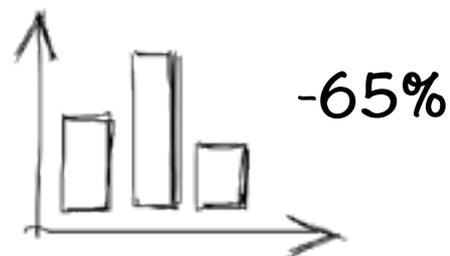
The situation had already improved after the restructuring. But the result was still insufficient. We saw that we were making progress with the changes, but at the same time we realized that in the traditional management model we would not be able to be innovative, even if professionalization had begun.

When we analyzed the changes in the universe of coffee and food consumption caused by technology and start-ups, we also began to plan the digitalization of services in the context of our client.

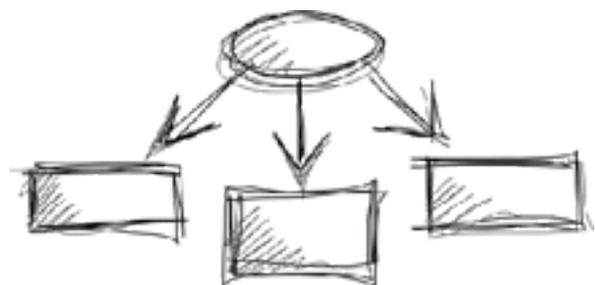
The pandemic has created an irreversible buying habit. Amid the uncertainties of the quarantine in the first half of 2020, many Brazilians changed their habits to shop more over the Internet, and spend more on their own homes, making them a place of expanded consumer experience. These were two common behaviors.



Together with our long-term client, we wanted to find out quickly and pragmatically how we could use this new reality. After a very sharp drop in revenue in the first quarter of 2020, the company is preparing to double its revenue compared to 2019.



What was our core assumption, our guiding principle? No consumer is or will be 100% offline. And no consumer will be 100% offline anymore. We need to be where the customer wants to make an explicit purchase. We believe that the multi-channel market is the best focus for our client's business model.



At the beginning of the pandemic, our client had a very high double-digit decline in sales, consumers were scared. After a relatively short period of time, however, we saw a general explosion of consumer spending in Brazil in many sectors. There was a shift in people's spending: Tourism and restaurants lost priority and products for home and personal use, especially the extended consumption experience in the home, gained attention.

Brazil has a globally prominent position in the use of cloud computing.

According to a study by Unisys, the Barometer of Success in the Cloud, which surveyed 1,000 executives from companies of various sizes in 13 countries, 92% of Brazilian managers are already taking advantage of the cloud, compared to 66% of executives from other countries. Of those who adopted this model, 48% said that their expectations in terms of cost reduction, product launch agility and competitive advantage were exceeded.

In the global ranking, which evaluates the development of companies on their way to the cloud, Brazil scored 66 points on a scale of 0 to 100, the highest value of all countries evaluated, 17 points above the world average, which was 49 points, and 10 points above the Latin American average (56 points). Among the executives, 56% said that they adopted the model in order not to be outperformed by the competition. According to the survey, almost all, or 95%, of Brazilian companies have adopted the cloud as a central component of their business strategy and report on their results.



The digital strategy - how to define it?

We needed a digital strategy, a kind of guideline for our client to approach the digital transformation. But what could be part of a digital strategy? We contacted companies and

specialists in Brazil and the USA to learn more about digital strategies and the use of social media platforms. The learnings:

1. Digital business models have the advantage that they are generally more cost efficient than business in the old world. They also offer the opportunity to directly identify real customer needs, because user data is usually easier to obtain. In any case, the experts are of the opinion that the integrated use of data is central to building digital business models.

As soon as the digital business model was implemented at our client, a lot changes were observed: the whole organization felt the effects. It was often not just a transaction of performance. Collaboration with suppliers changed, so did internal processes, and working methods and competencies had to be renewed.

In addition, digitization poses an even greater challenge to keep up with the latest technological developments. Because the use of new technologies is the essential difference to traditional business models and they are constantly evolving. A permanent engagement with technology is necessary. What different e-commerce stores are there? Which cloud technology should we rely on? Do algorithms



and artificial intelligence offer us new opportunities? Questions like these must be in the company again and again.

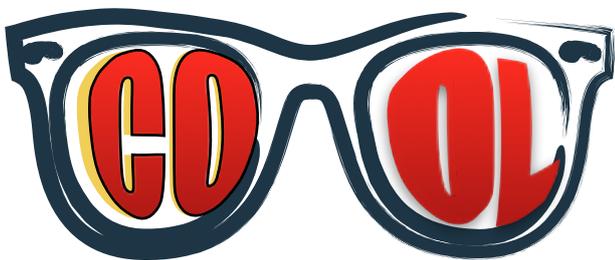
In order to keep up with this, we jointly appointed a person in charge, who acted as a technology scout and made initial considerations as to what benefits could endow the respective technology for the company.

2. Solve customer problems and create positive experiences. We all realized very quickly that before you can design a digital business model, you have to answer the question of what customer problems you want to solve with it and with the digital products and services. What customer benefits should be offered become? In addition, there must be the willingness to have product adaptations or extensions and/or the development of features due to changing customer needs in shorter cycles than in the offline world. The best digital channel is of no use if the customer's experience is miserable.

If you want to digitize customer interfaces and be responsive on different digital channels, you have to aim for a great customer experience.

3. Promote an agile approach and attitude.

Digitization has greatly increased the dynamics in our client's company. Long planning times and a development in the quiet chamber are not uncommon, but in the digital World passé. Instead, products and features are developed incrementally, in order to improve them step by step with the help of feedback, especially from the customer or user, or to design new features. This requires an open attitude of trying things out, the willingness to network and to deal with customer problems, and the courage to try something new again and again.



4. Create end-to-end responsibilities. We noticed relatively quickly that our client's organization was functioning according to the principles of the *old economy*. This was massively demonstrated by the fact that too few areas had real customer contact. At the same time, there were a lot of different functions within the value chain, which divided up the various work steps

among themselves, but it was not really clear who was responsible for positive customer experiences.

In the context of digital business models, interdisciplinary cross-functional units are more promising (see our video from the series "*How to Do: Profiling*"), which have the entire responsibility for all work steps along the value chain, from the recording of customer needs to the delivery of the corresponding product. They are also generally faster because the delays caused by coordination are reduced.

5. Use data! Our client also had a lot of data available, for example on customer behavior or work processes. But they were not being used, so the potential to extract interesting information for the business from them was untapped. There is probably no other area in the digital transformation where the gap between the status quo and the possibilities is so wide. It is necessary to develop know-how and use technologies in order to record data and evaluate it in a structured manner or to link it to one another in a meaningful way in order to use it for process optimization or new products and business models.

6. Enable rapid innovation. In a digital model, production and innovation cycles are shorter and the risk of disrupters from outside the industry is greater than in traditional industry. We have quickly observed and learned this. We saw it as very important to our client's organization to be able to try things out and ultimately innovate quickly. To do this, it is particularly important to promote the appropriate culture and establish efficient innovation processes.



Project Management: Digital Strategy

In Brazil, too, the migration to e-commerce took place en masse, along with social isolation. It is crucial to understand that technology is the

means to solve business problems. The focus is on the model and not on hardware and software.

With iManagementBrazil, we have so far carried out digitization projects primarily for small and medium-sized Brazilian companies. But we have learned and observed from other projects with international companies how they try to handle such projects.

The main problem for small and medium-sized companies is to overcome the uncertainty about how new technologies can be developed early on.

Today we are all facing an ocean of new developments and technologies. Which of the numerous developments open up potential and can be used for your own company be made?

To answer this question robustly, there are effectively only two possibilities:

Either such a process will be set up in-house for strategic early detection, or an external IT service provider will be contracted to answer the questions.

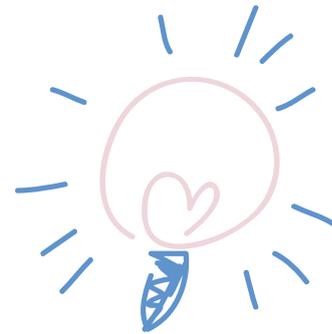
We at iManagementBrazil have developed a way to do this, which is nothing else but our very own philosophy: we are implementation-oriented interim managers, who work method-based and thus deliver consulting as a natural by-product to the customer. Our core business is not consulting, but consulting is a tool - nothing more.



Based on this philosophy we identify the relevant technologies and work in close cooperation with the employees and the management. As an external expert, we are neutral and have no hidden interests or historically determined focal points in our clients' companies.

We design such a process of technological early detection to be transparent and make decisions based on comprehensible evaluation criteria.

Furthermore, we ensure that strategic early detection is not a one-off action, but is also anchored as a continuous process in the client's company under the premise of continuous improvement.



Process: Strategic Detection

So what are the options for small and medium-sized companies whose budget does not leave room for extensive external consulting? In the following, the internal process at our client's for strategic early detection with limited resources is outlined.

1) In the **first step**, four employees, plus an iMB Project Manager, created a technology list of potentially relevant new technology options for the company. We proceeded in a very simple way and initially oriented ourselves to the exponential technologies available on the Internet. This list was then worked through along the process chain, depending on the budget available to us. It seemed reasonable to limit ourselves to one or two technologies in the first run.

2) In the **following step** we collected application examples for the selected technologies and visited companies where we could see this technology in use. It was essential in this step to understand what can be done with the technology in the future, not to understand how the technology works exactly.

3) Then a more **creative phase followed**. In a team, a kind of brainstorming session was used to discuss what these technology applications have to do with their own business areas, products and customers. The following guiding questions have been mentioned again and again:

- Can the technologies improve existing products, optimize manufacturing processes, enable new services or business areas?
- Do the technologies cover a need that we have already identified or formulated? Has a customer ever formulated something like this before?



All ideas expressed in the team were collected and documented. When all selected technologies have been evaluated in this sense, the respective results are compared.

4) After several technologies have been evaluated in this way, already **at this stage a feeling arises** as to which approach could be promising for our client. Finally, a ranking of the selected technologies was created.



5) When a particular technology became identified as the top candidate, perhaps the most difficult step of the internal process follows: **the evaluation**. On the one hand, it must be clarified in a professionally sound manner

whether the ideas developed can be implemented in practice and, on the other hand, what investments are required for this.

And it was precisely at this point that it quickly became clear that our client's own internal competencies were reaching their limits. However, the competence of iManagementBrazil is limited to the *Operational Technology* (OT), so that we were able to bring about a robust clarification with the help of our contacts from previous projects to the specialist scenes.

6) The evaluation ended positively and then led directly to the **decision regarding the investment** in the use of the identified technology. The actual process of strategic early detection was thus completed.

We chose the *Amazon Web Services* cloud computing platform to create solutions that would facilitate communication with customers and build up the future digital businesses.



By changing the way the project was conducted, the employees were divided into teams dedicated exclusively to the projects and had autonomy in decision-making without having to consult with our project manager on a regular basis.

The new project structure led the group to offer digital orders for third-party partner companies, thus reducing delivery times. In addition, useful information, such as delivery execution, is now transmitted through WhatsApp.

We can summarize the transformation in three steps:

1. Cultural change. The application of a new way of working required a rethinking of the employees who were used to the old management model. In order to create new work groups and temporary project groups, we did not focus so much on training or on the pure knowledge of the person. The most important tool was profiling, which was used by iManagementBrazil more than 12 years ago and applied in more than 30 projects. We also visited together some start-up companies in an incubator center in São Paulo, where

iManagementBrazil had done projects in the near past.

2. Team structuring. In order to develop new digital services, it was necessary to organize and even create new project areas such as data and analysis that did not previously exist in the company. So we set up a digital transformation center with seven employees and two data specialists who create digital products.

3. Innovation with method. Our client has adapted the *AgileManagement* methodology to innovate efficiently. Employees from different departments began to put together multidisciplinary teams that focused on specific projects, had almost no hierarchy and could make autonomous decisions within the project. Every 10 days, the teams' progress was discussed in an open discussion about their work.



The fieldwork for building a digital business model.

Right at the beginning of the process, we were pleased to note that our client's company, as a small or medium-sized enterprise, actually already had an advantage when it came to the digitalization of processes. We did not have legacy systems. This allowed us to immediately focus on renting infrastructure and software as a service according to the size of our client without immobilizing technological assets.

We had already learned this way of thinking at iManagementBrazil in the years 2017-2019 in several projects with Brazilian startup companies. Shorter budgets and less resistance to change helped to make cloud computing more popular. It was clear that we were going for a fully integrated cloud solution; investing in servers and networks was not necessary.

Assessing the real needs and promoting incremental and constant change is the most



appropriate way forward. It was fundamentally important to find a balance between the dreams of the digital world and the real urgency.

At this point, we needed real tactical planning and translation into a robust numbers based business plan, underpinned by plans to implement short-term processes and realize operating profits quickly.

In almost every business model we looked at, logistics had become the bottleneck that caused delays and service issues.

Ideally, we therefore focused on technologies and systems for tracking and tracing goods, which will increase our client's productivity.

Due to our clear budget constraints, this is a progressive process that requires discipline, investment and continuous effort. Another starting point was to invest in integration with other links in the production chain within the franchise chain by better following the products in the manufacturing process.

The significant Brazilian growth in e-commerce in 2020, with an increase in turnover of almost 60% from January to August compared to the same period of the previous year, put pressure on the logistics sector. We had learned this very quickly from all our conversations and knew that this was what we had to focus on to make a digital business approach a success.

We quickly realized that the introduction of technologies could be delayed, especially in the processes of delivery management, if we did not fully master the subject. We saw that the companies that were ahead in the digital transformation were also more flexible when it came to adaptation. However, we could not hope to achieve such an advantage with our client, as it was a small to medium-sized company and its budget was clearly limited.

So it became clear that we had to be involved somewhere. And here the old way of thinking of Economies of Scale helped:

What does the market leader in Brazil offer for an honest smaller company?

iFood offers a digital marketplace service for restaurants, cafes, bakeries, etc., also has its own fleet of vehicles and connects deliverers even with those without a delivery structure.

We learned that in this modality, in August 2020 alone, 15 million orders were processed, generating service for 150 thousand deliverers. So it was clear to us that this open digital platform was becoming an immediate alternative for us, as we did not have a digital channel in the entire value chain and would not build one.



Moto-boys in the streets of São Paulo - the logistic service providers

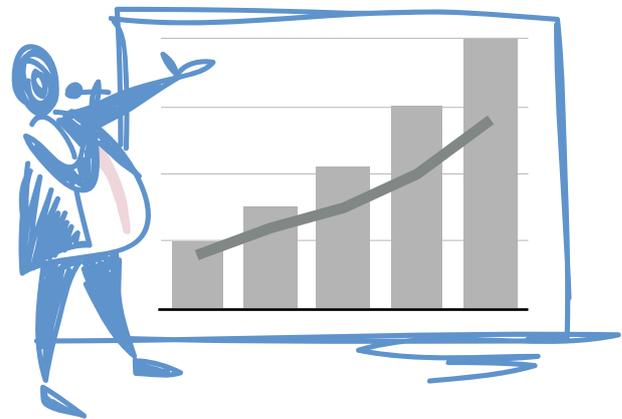
Like all digital natives, iFood uses the resources of artificial intelligence. It trains algorithms for calculating routes, estimating delivery times, finding the available deliverer and the immediate vicinity of the store. In practice, it provides a management system for both the stores and the transport service providers. The deliverers can see where they need to go, what orders they have placed, what routes they have taken. It's all in the app, which connects iFood with the deliverers and us.

The agility of the system is ensured by cognitive computer techniques that reduce data processing time. As a result, iFood is able to maintain an average of approximately 30 minutes between the registration of the order and the delivery of the food to the consumer.

Results

Companies will have to change their business models to keep up with new consumer trends, which includes a review of logistics processes. Customers will not tolerate delays and poor service from those who leave the product on their doorstep or the condominium portal. The good news for us was that technologies related to Logistics 4.0 are more accessible and will help to restructure the supply chain.

Since the introduction of the digitization measures, our customer has seen an increase in digital services of almost 300%, in addition to an average reduction of 30% in delivery time to customers. The customer satisfaction rate has increased by almost 60%.



Marketing and brand consolidation goes digital.

On the one hand, the digital infrastructure had to be set up with reduced budget expenditure. On the other hand a digital content had to be created - only delivery service would not bind customers to the newly emerging coffee store franchise chain in the long run.

We had further developed the idea that our client's now established brand could also be attractive as an attractive digital platform for small, complementary companies that had especially emerged during the pandemic. For example, brands for bakery products were created that were only visible in digital channels such as Instagram, Facebook and Pinterest and used them to conduct business.

Together we explored a wide range of such brands and then selected suppliers that defined a certain unique selling proposition and were located in the premium segment.

These brands were integrated into the digital channel of our client's coffee store franchise

chain, but were still visible as a separate brand. To make the consumer experience during the quarantine period more emotional, a wide variety of live stream formats were created.



Twist-chocolate birthday cake

With the pandemic, live video streaming platforms became dramatically popular in Brazil and formed an interface to brands and consumers. Brazil is a very young country - the average age of the population is 30 years. This makes the digital nature of the new streaming platforms a popular destination for an audience that is inherently more interactive. Streaming live broadcasts seem to give Brazilian viewers the authenticity they are looking for, especially when it comes to food.

Thus, a live streaming model has been established with various providers of baked goods. On our client's webpage, as well as in the social media channels, the date and the baked product to be created in the stream will be announced. If the client is interested in participating, he pays a participation fee. With this fee, the participant buys the required shopping basket of all ingredients at the same time. This shopping cart is then delivered



Delivery of basket

directly to the participant a few hours before the live video stream.

Baking is something unique. The art of baking something involves more than just being a passive viewer. You have to roll up your sleeves, put your hands in the dough and start making something. You open your horizon and see where the taste takes you. Exploring food has an element of unpredictability about it. We have found that live video streams are a great way to express this and build brand loyalty in a highly emotional way.

The main attraction of streaming platforms is the ability to share in real time, as if the viewer were actually standing in the kitchen.





SEQUENCES FROM ZOOM LIVE, STREAMED ON JUL. 19, 2020 MAKING OF BLUEBERRY-ALMOND-LEMON CAKE



Social Media	user group	purpose
	all customers, extremely high usage	general communication, Q&A, orders, order tracking
	undifferentiated, random user	general announcements, little brand benefit
	absolutely undifferentiated, extreme reach, geographically irrelevant regions, local communities easily accessible	Increase brand awareness, reach local communities, customer loyalty
	Random user, local community	Increase brand awareness, little dynamics

Social Media	user group	purpose
	all customers, local communities, short-term effects	Increase brand awareness, reach local communities, customer loyalty
	all customers, local communities, best brand positioning	long-term brand positioning
	live video streams	brand positioning, direct consumer contact
	Random user, local community	Increase brand awareness, little dynamics

Final review

Unfortunately, there is probably no universal patent remedy for successfully managing the various tasks of strategic early digital detection. It always depends on the respective company situation and the different framework conditions associated with it. Basically, however, it can be said that the systematic and careful execution of the outlined process is much better than sitting back and letting competitors or pure IT consultants take the initiative.

An essential side effect of this process, which is carried out with our own personnel resources, is to reduce reservations about the changes in the company caused by the new technologies. If the process is open and transparent, employees are more willing to question things and, if necessary, formulate uncomfortable answers themselves.

Only in an open and innovation-friendly corporate culture can fruitful results be achieved. In this way, internal compartmentalization of individual business areas can be further developed in favor of future-oriented and comprehensive corporate thinking.

The process systematically initiated by iManagementBrazil is well suited for small and medium-sized companies to develop new technologies with limited budgets. Using the innovative power of the own employees not only helps to address new or changed markets, but also facilitates the implementation of the associated changes in the company.



Inside a franchise coffee shop

At our client company, the implementation of digital channels made the online market stronger: in the baked goods segment, e-commerce achieved a 67% share. Previously it had been 5%.

Following the reopening of the physical stores, this revenue has stabilized at 32%. Even though the pandemic is not yet over, we are jointly convinced that this share will stabilize at around 35%.

In 2020, we have achieved growth peaks of up to 200% in a few weeks. On average, we will increase our client's revenues by about 115% compared to 2019. The profit situation should improve by about 52% compared to 2019.

Especially in the supply chain we implemented a new way of thinking. We eliminated the need to stock finished products in the digital distribution channel by -55%

The concept of drop-shopping was consistently introduced, i.e. the finished product is brought directly from the manufacturer, be it our client's brand or a complementary third-party supplier, directly to the consumer. This helps to have a competitive price.

What did we see?

Technology is always evolving faster than we thought it would. What has happened in recent months has been an acceleration in the adoption of what already exists. There is much more to come - this journey is not over yet! (FPN)

