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GLOBAL PERSPECTIVES, INTERVIEWS

### Episode 15: Digital Strategy And Transformation In China – A Conversation With Matthias Hendrichs



(<https://octopusdigitalstrategy.files.wordpress.com/2015/08/matthias-hendrichs.jpg>) Matthias Hendrichs (<https://www.linkedin.com/profile/view?>

[id=24767505&authType=NAME\\_SEARCH&authToken=RE7i&locale=en\\_US&trk=tyah&trkInfo=clickedVertical%3Amynetwork%2CclickedEntityId%3A24767505%2CauthType%3ANAME\\_SEARCH%2Cidx%3A1-1%2CtarId%3A1439513957734%2Ctas%3Amatthi](https://www.linkedin.com/profile/view?id=24767505&authType=NAME_SEARCH&authToken=RE7i&locale=en_US&trk=tyah&trkInfo=clickedVertical%3Amynetwork%2CclickedEntityId%3A24767505%2CauthType%3ANAME_SEARCH%2Cidx%3A1-1%2CtarId%3A1439513957734%2Ctas%3Amatthi)) is Managing Director with the [Gao Feng Advisory Company](http://www.gaofengadv.com) (<http://www.gaofengadv.com>), a pre-eminent strategy and management consulting firm based in China. Before joining Gao Feng as the lead for their digital practice for Greater China, Matthias worked in Europe and Asia for blue chip companies such as [Bertelsmann](http://www.bertelsmann.com/#st-1) (<http://www.bertelsmann.com/#st-1>) and [BASF](https://www.basf.com/en/html) (<https://www.basf.com/en/html>). He consults, speaks and writes extensively on the subject of digital transformation and disruption in China. He joins us today from Hong Kong to discuss this subject. You can hear our conversation in the podcast in [iTunes](https://itunes.apple.com/us/podcast/octopus-digital-strategy/id994408383?mt=2&uo=6&at=&ct=) (<https://itunes.apple.com/us/podcast/octopus-digital-strategy/id994408383?mt=2&uo=6&at=&ct=>), [Stitcher](http://www.stitcher.com/s?fid=66250&refid=stpr) (<http://www.stitcher.com/s?fid=66250&refid=stpr>) or [Soundcloud](https://soundcloud.com/nasser-sahlool/tracks) (<https://soundcloud.com/nasser-sahlool/tracks>) or below now.

Gao Feng was formed 18 months ago, with offices in Hong Kong, Shanghai and Beijing and with a team of 20 bringing corporate or strategic consulting experience that they leverage on behalf of multinational and Chinese companies.

Originally from Germany, Matthias focuses on digital transformation for established enterprises as well as digital first companies. In this, he draws on experience that includes years in the entrepreneurial, corporate and consulting spaces, including starting up an Internet company in the nineties. He has been in China for 10 years and was drawn to the Chinese market by its vibrancy, a welcome change for someone used to working in a more mature market like Germany.

Matthias characterizes the Chinese market as one that has been rapidly developing over the last 10 to 15 years. What marks this development as considerably different to most established markets is that it is *revolutionary, not evolutionary*. An example he provides of this is the fact that 80% of the 650 Million Chinese Internet users access the Internet via mobile devices, having leapfrogged technologies such as land lines and desktop computing. And it's not just the Internet industry that is undergoing this type of change. Matthias sees that this is happening constantly, rapidly and in a multi-dimensional way across a country of remarkable size and complexity with a population of 1.3 Billion people spread out across a huge area of incredible diversity. As he puts it, there is *'no one China... it is crucial to understand that'*.

This combination of complexity and rapid change makes it a true challenge to plan strategically. What does not work according to Matthias *'is to copy and paste ideas and business models from other parts of the world'* – A good example to highlight this is the fact that eBay failed when they entered the Chinese market and tried to apply their global business model without much of an adaptation to the local conditions.

Matthias sees the path to success starting with *'consumer insights, understanding the China context...not just understanding what is happening now but also trying to put ourselves in the shoes of consumers...ask what they might require 5 years from now and who will be the players'*. He points to the success of companies such as Uber or Alibaba. A common feature of their success is that *'they build an ecosystem and use it to stretch their capabilities from one area to the next and build a strong network of capabilities (in order to) leverage that with a consistent backend structure'*.

Matthias gives examples of 2 different types of companies to highlight how they are succeeding in this market. The first is established Chinese companies. The example he gives is [Haier](http://www.haier.com/index.html) (<http://www.haier.com/index.html>). This is a major white goods producer (fridges, air conditioners, etc) that recognized the need for drastic change. In order to power this they involved and engaged their consumers considerably more than they previously had. They turned to digital channels to achieve this, engaged consumers through [WeChat](http://www.wechat.com/en/) (<http://www.wechat.com/en/>), a Chinese version of [WhatsApp](https://www.whatsapp.com) (<https://www.whatsapp.com>), and used it to solicit input for new products. This outreach garnered input from *600,000 people*, a scale unheard of anywhere else. In turn, this initiative significantly shortened the development cycle and produced products with a ready built market at completion. But it wasn't just digital outreach that powered the turnaround in the company's fortunes. The CEO, [Zhang Ruimin](https://en.wikipedia.org/wiki/Zhang_Ruimin) ([https://en.wikipedia.org/wiki/Zhang\\_Ruimin](https://en.wikipedia.org/wiki/Zhang_Ruimin)) adjusted the organizational structure of the huge conglomerate to allow it to better respond to the dizzying change, effectively tearing the company down and making it modular in order to create cells that can be organized around ideas and initiatives, where employees can collaborate to start their own projects and benefit from a corporate backbone that provides them with shared resources to draw on.

The second type of company he highlights as succeeding is innovative Chinese digital first companies such as [Alibaba](http://www.alibaba.com) (<http://www.alibaba.com>), [Baidu](http://www.baidu.com) (<http://www.baidu.com>), [TenCent](http://www.tencent.com/en-us/index.shtml) (<http://www.tencent.com/en-us/index.shtml>) and [Xiaomi](http://www.mi.com/en/) (<http://www.mi.com/en/>). For example, the latter company is primarily known as a smartphone producer, but what has made them extremely successful is the fact that they have developed their own ecosystem, something Matthias says is *'very typical of Chinese digital companies'*. This ecosystem that they have developed is based around the [Internet of Things](https://en.wikipedia.org/wiki/Internet_of_Things) ([https://en.wikipedia.org/wiki/Internet\\_of\\_Things](https://en.wikipedia.org/wiki/Internet_of_Things)) with their smartphone at the centre, all employing their own version of android (also using a fanbase of enthusiasts for product development and bug fixes) and including a huge variety of connected smart products, including fitness trackers (of which they are the second largest producer in the World).

Matthias sees tremendous opportunities in the contemporary market for Chinese speakers, with considerable financing available to fund entrepreneurs. But he makes the point that being able to communicate in Chinese is very much a pre-requisite for success since *'for the right reasons, China is becoming more Chinese'*. The second requirement is knowledge of what he calls the *'Chinese context...Chinese specific problems need a Chinese specific solution'*.

His final recommendation is to not make the focus of digital work on technology, but rather to make your differentiation about understanding industries and looking at ways to disrupt them as well as using digital as a facilitator of that disruption. This begins by understanding how the business models work and then challenging them. The best way to do that is by gathering experts in those industries and together brainstorming on how digital technology can disrupt them, particularly when the root cause of any given pain points is *'that's how it's always been done'*. To be successful at this requires very particular skills, especially *'curiosity and well-developed listening skills'*. This use of an ecosystem of industry specific experts combined with strategists to orchestrate is precisely how Gao Feng manages to apply strategic thinking and succeed in this complex market.

Next week on octopus, we will continue to explore the role of the digital strategist. Please be sure to comment below. I'd love to hear from you. Please subscribe for alerts about new episodes and content. Thank you for listening to octopus. I'm Nasser Sahlool.

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