

# Digital transformation in China's dairy market: An interview with Fonterra's president for Greater China, Christina Zhu

The executive shares her experience with leading a digital transformation in China.



In just six years since the first Anchor UHT milk bottle appeared on Shanghai supermarket shelves, the Fonterra brand has become the leader in imported milk in China. The brand's China portfolio now spans almost 50 products, available across more than 13,000 stores, and the landmark sale of its billionth glass of milk in the country is fast approaching.

Anchor is also the most popular brand of semi-skimmed milk in the entire country, while China has become New Zealand-based Fonterra's most important market, accounting for a quarter of all milk the company collects.

More than half of Anchor's China sales occur online, and strategic partnerships with the likes of Alibaba Group's new Freshippo retail grocery stores have made the brand synonymous with savvy digitization strategy.

"Unlike many multinationals, which view China as their second most important market, Fonterra has always regarded China as its largest, fastest growing, and most strategically important market," said Christina Zhu, the first woman to lead Fonterra Greater China.

During her tenure over the past four years, Fonterra achieved double-digit growth in China's consumer market while the B2B restaurant and catering business grew threefold, underpinning growth of Fonterra's Greater China operations to account for approximately 25 percent of global revenue.

Fresh from signing a deal late last year with food distributor Xiamen C&D to bring Anchor products to more than 300 million additional consumers in lower-tier Chinese cities, Zhu spoke with McKinsey senior partner Sha Sha about how the centuries-old New Zealand dairy company adopted a start-up mind-set to crack the China market, while effecting a digital transformation that keeps both competitors and colleagues on their toes.

The McKinsey alumna also shares insights into the most effective team structures to drive rapid

organizational change, how chatrooms provide an endless source of inspiration, and a unique perspective on how best to balance being a leader and a woman, in a rapidly changing world.

**Sha Sha:** Chinese consumers change very quickly, and change implies opportunity. What significant trends have you observed in the last few years?

**Christina Zhu:** There are two fundamental trends. First, at the consumption level, there has been a lot of discussion about whether spending has traded up or down. I believe both phenomena have occurred at the same time. A more significant trend is that divergence has begun to emerge in the Chinese consumer market. This will be a major trend in the future, particularly as digitization continues to advance at a pace and depth unparalleled in other countries. Consumers' individual needs will significantly impact on the industry, forcing a remodeling of the supply chain from the consumer end, and making it imperative that brands regard consumers as their first priority.

**Sha Sha:** When CEOs embark on digital transformation, they often start slowly, but you opted to digitize several key businesses—consumer products, B2B, and farm hubs—straight off the bat. What influenced your approach?

**Christina Zhu:** Every business must have a handle on the pace of digital transformation and begin from its own needs. Our consumer-product business began somewhat later in China and was confronted with a mature market that was fully competitive. If we didn't fully embrace digitization, the chances of survival would have been very low. Although a traditionally strong business, restaurant and catering services are vulnerable to digital disruption, so we have to keep an eye on the future. On the other hand, running our farms effectively is more a management issue, so digitization can enable greater efficiency. We see digital transformation as a common direction for all our businesses, but the pace of each transition will differ.

The other important element is that cultural transformation must be uniform. If some people

in an enterprise are innovating and transforming while others are still functioning as they did 20 years ago, then the corporate culture splinters. A clear consensus among all staff must be developed—we must put aside our old habits and create a new strategy together.

**Sha Sha:** Anchor milk's successful Daily Fresh offering was inspired by a collaboration with Alibaba's Freshippo grocery store concept. Was this product really launched after only three months?

**Christina Zhu:** It would have probably taken one to two years if we had taken the traditional approach. We shortened the process to three months by adopting an agile organizational approach, and the product became the leader in its category immediately after launch.

The project team had two tiers: the first-tier core team was made up of four to five young people, and the second-tier support team was made up of staff selected and seconded from various departments. The core team must be streamlined. If a project team has 25 people, it's always going to be slow.

**Sha Sha:** When you entered the market, there was an immediate push to make Anchor the top import retail store on JD.com and Tmall.com. How confident were you of achieving such a lofty goal?

**Christina Zhu:** When you introduce a new product to the Chinese market, you must establish basic scale quickly. If you don't set a target, there's little motivation to forge ahead. Business is not like running a marathon or a 100-meter dash, but is more a marathon broken up into many sprints. Pacing is very important, and there must be ebbs and flows. You have to sprint at critical junctures and then adjust your pace to reach the next target. In retrospect, we set the target to be number one because we were already ranked second at the time.

**Sha Sha:** Fonterra's B2B business is often referred to as an "invisible champion" in the

Chinese market. How did you energize the business through digitization?

**Christina Zhu:** An enterprise is often most vulnerable when it is at its most secure, most powerful and influential—at its zenith. In the Chinese market, merely beating the traditional industry players is not enough, because your true competitor may well come from somewhere you least expect. It's actually meaningless to spend too much time pondering who your competitors are. Instead, you should think about how to do your best. For us, that means considering all components of our business. Digitization is a key aspect. We have made digital-platform innovations and work to incubate the good ideas independently before rolling them out across the business.

We're also always exploring channel transformations. We want to extend our channels and expand from tier-one and -two cities to tier-four and -five cities. If you look at my chat groups, you'll find I've been shuttling around tier-four and -five cities lately, surveying various county-level cities. In the past, enterprise competition was my strong suit. I would work to find business models that could dominate an industry. Now, it's more about how much value you can provide to the consumer and to your customers. We believe digitization isn't just about us. What's more important is going digital together with our customers and achieving comprehensive digitization up and down the value chain.

**Sha Sha:** You're definitely not a CEO who focuses on financial statements. How would you describe your approach?

**Christina Zhu:** There's a Chinese saying: "There's more to writing poetry than merely studying it." The same applies to the financial statements—numbers are very important, but they're just an outcome determined by a myriad of factors, such as the strategy, talent, operations management, and chat groups of an enterprise. I spend a lot of time expanding Fonterra's chat groups. The resources and capabilities of any enterprise are limited, so it's not feasible to simply rely on



## Christina Zhu

### Education

Holds an MBA from Columbia Business School and a BA from Beijing Foreign Studies University.

### Career highlights

Appointed president of Fonterra's Greater China region in 2016, helping spur its Anchor

brand to become the market leader in imported dairy products.

Directs Fonterra's \$5-billion-plus business across consumer-product brands, restaurant and catering services, and farming businesses in mainland China, Hong Kong, and Taiwan.

Served as managing director of Cerberus Capital Management, where she led sourcing, screening, and execution of investment opportunities in Greater China.

Led strategy and business development for Honeywell in China as vice president of business development.

Acted as a consultant in McKinsey's New York office for large financial institutions and media companies, advising on growth strategy, operations, marketing, and M&A.

yourself. Maintaining an open mentality is key. The role of a corporate manager can be thought of as building platforms, bringing resources together, empowering young people working on the front line, and allowing teams to brainstorm. The outcome is often more amazing than any idea you can come up with on your own.

**Sha Sha:** Although Fonterra is a multinational corporation, it was more like a start-up in China. Given this duality, how do you nurture and attract talent?

**Christina Zhu:** The start-up concept is not just a cute expression, but an accurate picture of the actual situation. Many of our China businesses, such as consumer products, were start-ups with few resources. We had to start from scratch, so talent was particularly important. We put a lot of effort into recruitment. When looking for personnel

in sales or marketing or supply-chain management, past training and professional experience was not the most important criteria. We were, and are, more interested in whether they have an entrepreneurial spirit, an open mind, and can consider new ways to achieve our business targets. Of course, not everyone in the company needs to be like that but the core team must have these capabilities.

**Sha Sha:** As the first female CEO of Fonterra Greater China, can you offer some advice to aspiring female managers?

**Christina Zhu:** Actually, I seldom think of myself as a woman CEO. We shouldn't dwell on these external labels. The main thing is to follow your heart and take the next step forward. Perhaps the outside world already thinks you're great, but you should expand your boundaries and uncover

life's possibilities. In a fast-changing era, we must learn to let go of the control-freak mentality. Only then can you gain freedom and maintain a healthy state of mind. Only when you have found self-fulfillment can you strike a balance between career and family, though even this may well be a dichotomy.

**Sha Sha:** Do you think there are any special advantages to being a female CEO?

**Christina Zhu:** I believe new leadership is required in every era, not gendered leadership, mind you, but character-driven leadership. It's just that certain characteristics are more common

to female leaders. I believe there are three key characteristics. The first is intuition. In the past, markets didn't change a lot. They could be determined and analyzed based on experience and numbers. Now, foresight is more important, and it's more about intuition and inspiration. The second is collaboration. Whenever people or companies work together, we should have an open mind and work to achieve collaboration, mutual interest, and mutual benefit. The third is tenacity. You must accept that you are not perfect and will often make mistakes, but still must get up every time you fall, continue to persevere even when you lack resources, and lead everyone forward.

**Christina Zhu** is president of Fonterra Greater China. This interview was conducted by **Sha Sha**, a senior partner in McKinsey's Hong Kong office.

Designed by Global Editorial Services  
Copyright © 2019 McKinsey & Company. All rights reserved.