

Scotland
A LAND OF
food and drink



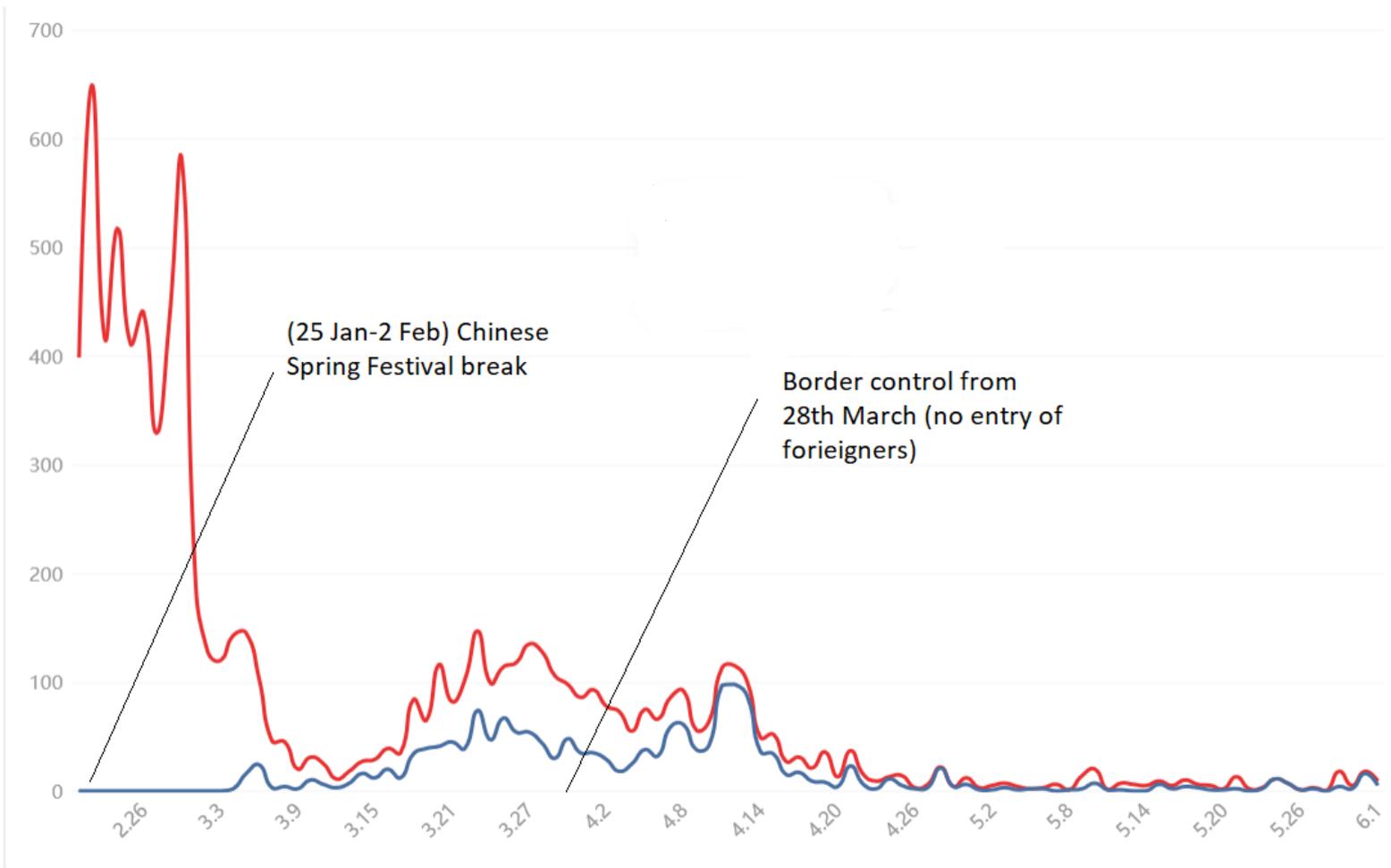
Measuring the impact of COVID-19 on China's consumer market

Linda Liao
SDI China food drink specialist



Scotland

A LAND OF
food and drink



Scotland

A LAND OF
food and drink



Stage 1: Closure period (Jan-March)

- Reduce contact and social distancing
- Extend the holiday (Chinese Spring Festival)
- travel restriction/ban domestically and externally
- Quarantine and self-at-home isolation, hospital treatment
- Utilising social media tools to update the situation, keep connected, trace the travel record, and for multiple-education purpose



Scotland

A LAND OF
food and drink



Stage 2: The path to recovery

Ease of the lockdown, lifting the situation of the emergency, reopening of the business gradually (March-May)

As travel and work slowly resume in China, The government enforces partial continuation of these policies to ensure that the COVID-19 outbreak is sustainably controlled.

- e.g. 1) temperature check, and show healthy colour code when entering public areas
- 2) Encourage working remotely from home, work on shifts
- 3) Travel record filing and reporting
- 4) Wearing masks, social distancing and reduce contact
- 5) internet-based teaching
- 6) postpone or cancellation of big gathering/events
- 7) Border control (returned Chinese students, expats)



Scotland

A LAND OF
food and drink



Outbreak's impact by industry

- (1) Among all industries, out-of-home dining, OOH entertainment and travel have been hit worst because people cannot leave home
- (2) Four industries – advanced epidemic prevention, basic epidemic prevention, drugs and nutritional supplements – sold out their stocks in some parts of China. We also noticed the unmet demand for nutritional supplements is significantly higher in Hubei Province than the rest of China.
- (3) Some seemingly distant industries have become collateral damage of the outbreak. For example, due to reduction in OOH dining and friend/relative visiting, consumers have cancelled or reduced spending on liquor, cosmetics and apparel.
- (4) The outbreak has also increased people's spending in some industries, such as food and beverage, household cleaning, medical/life insurance (significantly higher in Hubei than rest of China during the outbreak). Consumers' demand for these industries will continue to be robust after the outbreak.
- (5) Overall, luxury might experience the biggest negative impact from coronavirus in both short- and middle-term
- (6) Export business were hugely impacted. Disruption of global supply chain



Scotland

A LAND OF
food and drink



Outbreak's impact on retail channel

- 1) During the outbreak, many new and emerging retail channels experienced explosive growth, for example new retail channel such as hema/hippo fresh, online-to-offline (O2O) channels, such as Ele.me, Meituan, Dingdong Maicai, which connect stores with consumers at home; residential complex community WeChat groups buying
- 2) Surveyed consumers said they would resume their frequent visit to offline retail channels (experience economy): they would visit hypermarkets and supermarkets more often. However, that doesn't mean the online channels will stop its growth.
- 3) Social media apps play the role of entertaining, marketing and information sharing. E.g wechat is adopted by local governments to update the development of the epidemic; Brands to use online channels to interact with consumers and do online sale;
- 4) Fundamental changes in people's attitude towards how/why/what they buy.
- 5) The epidemic will force the Chinese physical retailers to compete more on accessing customers online, focus more on community-level stores and outlets, leaner and more effective SKU combinations, and more social responsibility, logistics, and cold-chain delivery.



Scotland

A LAND OF
food and drink



Outbreak's impact on food service

The coronavirus has had a huge impact in China, and with the increase of confirmed cases, the foodservice industry in some parts of China will continue to suffer. Therefore, it is very likely that 2020 will be a difficult year for the foodservice industry. This may accelerate the closure of smaller restaurant operations, while large players could have a better chance of survival, due to their scale and stronger financial position.

In the medium-to-long run, the virus outbreak may reshape how consumers are getting their food, e.g. through e-commerce and delivery. As such, foodservice players will need to adapt to the changes in consumer behavior and increase efforts in innovation.

Table 1: Chinese foodservice sales growth, 2020e*

<i>Last period</i>	<i>1 month (Feb)</i>	<i>2 months (Mar)</i>	<i>3 months (April)</i>	<i>4 months (May)</i>
2020 foodservice	1% to -4%	-3% to -10%	-6% to -15%	-11% to -22%
YOY growth				

Source: National Bureau of Statistics of China, Rabobank 2020

* Growth range is based on 50%-80% losses in February, March, April, and May monthly sales of the foodservice industry.



Scotland

A LAND OF
food and drink



Outbreak's impact on food service

- Industry consolidation in the future

Larger foodservice companies have the chance to gain larger market share, considering that smaller foodservice operators will be cash-strapped and forced out of the market if that cannot be controlled in Q1 2020. According to the survey from Tsinghua and Peking University, 85% of the smaller operators' can't bear the cashflow losses from the virus outbreak for more than three months. (Tsinghua and Peking University co-developed the survey based on 995 small to medium-sized companies' responses after the virus outbreak.)

Large, chained brands could have better capacity to cope with cost/cash flows/supply chain, because of their scale (ability to spread risk) and stronger financial position. Due to stronger financing capabilities, those large chains are able to retain their workforce even for the closed stores, which in turn helps them to respond swiftly when outlets resume full operation.



Scotland

A LAND OF
food and drink



Outbreak's impact on food service

- E-Commerce Helps Foodservice Sector With Short-Term Challenges
E-commerce players, such as Alibaba and JD.com, are using their capabilities in logistics, supply chain, and technology to ensure continuation of food supplies. They are also taking other measures to help the foodservice industry:
 - 1) 'Shared employees' scheme:** Alibaba's supermarkets Hema and delivery platform ele.me introduced an employee-sharing scheme that allows workers in foodservice sectors to get temporary jobs. This does not only help to reduce the cost pressure for foodservice players, but also resolves the labour shortage issue in retail and delivery.
 - 2) Subsidized delivery staff to increase logistics efficiency:** Alibaba has set up a CNY 1bn fund for supply chain and logistics services. The fund is used to compensate delivery staff for their services. The purpose of this subsidy programme is to motivate delivery personnel and increase logistics efficiency;
 - 3) 'Foodservice players offer branded products in retail':** JD has initiated the online sales alliance programme that encourages foodservice players to offer branded retail products, e.g. prepared ready meals and sauces.



Scotland

A LAND OF
food and drink



Outbreak's impact on consumers' attitude change

- 1) Increasing spending on protein-based products (red meat, and dairy products), personal care (health & wellness products including nutritional supplements, masks and disinfectant), and home appliances for disinfecting purposes
- 2) In snapshot survey, under this circumstance, Chinese people's consumption attitude will become more conservative. There are more people agreeing to "save up for rainy days", "reduce unnecessary spending" than agreeing to "enjoy instant pleasure". People will treasure things that money cannot buy, such as "spending more time with family and friends", "richer spiritual world", "becoming a better self".
- 3) In their attitude towards brand, people will "pay more to buy from socially responsible brands", "pay more for cleaner environment and services", "pay more attention to environmental protection and sustainability".
- 4) Brands won consumers heart for their social responsibility and donation for the fight against the coronavirus, or for their continuing to offer same high level of service/product under this extremely challenging circumstance.



Scotland

A LAND OF
food and drink



Market trend and new opportunities

1) Covid-19 pandemic accelerates the rise of digital payments

Some countries including China have started quarantining or disinfecting banknotes. It is well-known that currency in circulation can serve as a vehicle for transmitting pathogens, though the potency of pathogens transmitted via cash remains unclear.

The latest move also comes amid China's accelerated move to launch the digital currency amid the COVID-19 pandemic.

Wechat pay and Alipay.

2) Shifting from supplying to food service to retail sector

Importers who used to supply to the food service sector are looking at opportunity in the community sale or direct sales channel to the end consumers by using the wechat mini-program or live streaming on major platforms such as TikTok.



Scotland

A LAND OF
food and drink



Digitization: Digital tools become increasingly popular solutions, expanding from B2C to B2B

COVID-19 has accelerated digital developments in three key areas:

- **B2C interactions, particularly via online channels**

Citizens buying daily groceries

B2C companies with established digital solutions were able to take advantage of the shift to digital channels, and outperformed peers

- **B2C sectors that traditionally rely on physical interactions.**

During the lockdown period, companies deployed an array of digital tools to stay connected with customers, even in sectors that traditionally rely on physical interactions.

- **Business processes.**

Traditionally, business-to-business (B2B) operations and engagement models demand face-to-face interactions. During COVID-19, several digital processes were introduced that fundamentally changed industry dynamics. Remote-working



Scotland

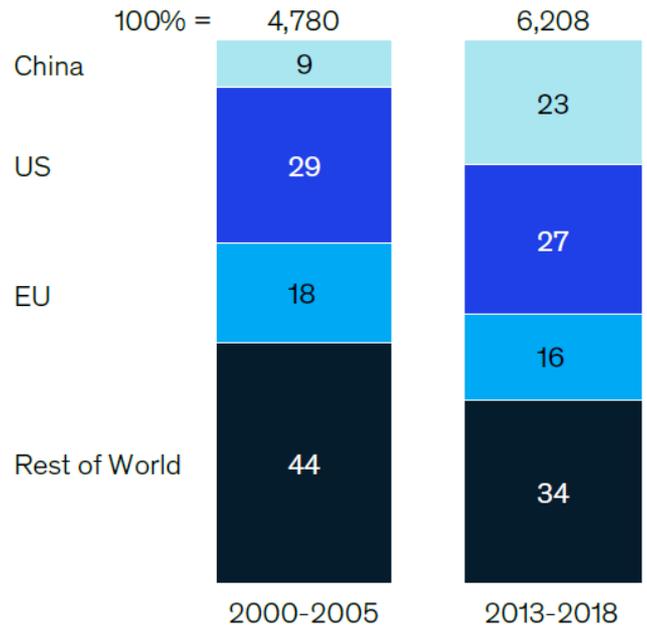
A LAND OF
food and drink



- Consumers come of age: Consumers (especially the young) are becoming more prudent and health-conscious.

China's consumption power has grown significantly

Global household consumption growth by region, %, billion 2010 US\$

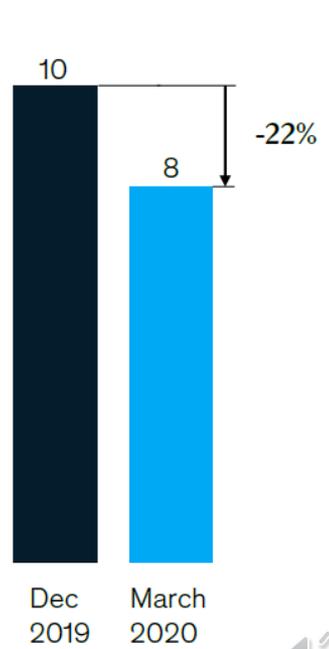


Consumers have become more prudent with personal finances since COVID-19

China household deposit balance, RMB Tn



China consumption loan/consumer credit balance, RMB Tn



Source: National Bureau of Statistics in China; World Bank; People's Bank of China; McKinsey analysis



Scotland

A LAND OF
food and drink



Consumers come of age: Consumers (especially the young) are becoming more prudent and health-conscious. The accelerating maturity of Chinese consumers can be seen in four key areas:

- **Young consumers' spending.**

However, the epidemic has unlocked their long-term planning behavior, as they come to terms with the prospect of recession for the first time in their working lives. The result has been significant changes in their saving, borrowing, investing, and consumption behavior according to various surveys . More saving, purchase more insurance products, plan for consumption and reduce impulsive buying,

- **Even more prudent personal financial management.**

Chinese consumers are now putting even more thought into how they manage their personal finances. Increase their sources of income through wealth management, investments, and mutual funds; buy health insurance for themselves and their family.

- **Health conscious purchase decisions.**

Increased awareness of product safety and quality, and this trend is expected to continue. To spend more time and money purchasing safe and eco-friendly and healthy products, despite pressure on disposable income as a result of the economic slowdown.

- **Purchasing trade-offs amid a flight to quality:**

More cautious as a result of the epidemic, tending to spend less but buying better quality products. essential, health-oriented products, such as sanitary and health products, fresh food, and life insurance



Scotland

A LAND OF
food and drink



- **Introduction of alternative meats, plant-based food**

Beyond meat to partner with KFC/Pizza hut, and Starbucks to introduced plant-based alternative meat products

Starfield (soybean based) to partner with Papa Jones

Danone, Nestle (100m investment in plant based plant in Tianjin), Dupont



Scotland

A LAND OF
food and drink



China International Import Expo (5-10 Nov 2020)

CIIE is China's flagship import exhibition and is operated by China Ministry of Commerce (MOFCOM) in collaboration with the leading national associations for each major trade sector.

DIT team in China have secured a 300sqm standalone pavilion within the sector hall under the Food is GREAT brand. This is your opportunity to be part of the Food is GREAT China International Import Expo (CIIE) 2020 project. If you are interested in the China market now is your chance to consider exhibiting, sponsoring or participating.

The UK pavilion at CIIE 2020 will offer best-in-class design and facilities, providing a unique and tailored exhibiting opportunity for UK companies and products. Supported by significant Food is GREAT investment and branding, with an extensive programme of preparatory and in-show activity.

Venue: National Exhibition and Convention Centre (Shanghai)

Website: www.ciie.org/zbh/en/news/exhibition



Scotland

A LAND OF
food and drink



SDI in-market specialist based in Greater China

Hong Kong & Taiwan:

Pasco Cheng Pasco.Cheng@scotent.co.uk

Yvette Wong Yvette.Wong@scotent.co.uk

Mainland China:

Linda Liao linda.liao@scotent.co.uk

Tiffany Fu tiffany.fu@scotent.co.uk

Leo Lu leo.lu@scotent.co.uk (ecommerce)

