

Brief

China's Consumer Industry Prepares for the Coronavirus Legacy

Many executives already recognize that online channels are set to become more important than ever.

By Derek Deng

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At a Glance

- ▶ Bain & Company analysis of Alibaba Tmall data shows how Chinese shoppers have increased online purchases of consumer goods during the crisis.
- ▶ We think many of these behavioral changes will stick—and a Bain survey suggests many consumer industry executives agree.
- ▶ Companies are likely to benefit from placing more emphasis on online channels and drawing data-led lessons from past and present trading.

In its early stages, the coronavirus outbreak in China has forced consumer goods makers to confront a host of short-term uncertainties. When can we restart production? How can we replace missing raw materials normally supplied from virus-hit areas? What if a stream of new COVID-19 infections persists well into the second quarter of 2020?

But even as they grapple with these operational questions, consumer industry executives in China already have a clear sense of one of the biggest strategic implications of the crisis: the need to accelerate the migration of their businesses online.

That imperative is one of the key findings of new Bain & Company research tracking how Chinese consumers have been ramping up their online purchases during the outbreak—and how the sector's senior managers are planning to respond to COVID-19 over the coming months and years.

Online demand spikes for short-term stock-ups and daily essentials

In partnership with Alibaba Tmall, we analyzed online shopping over 13 days from the start of the Lunar New Year holiday on January 25, a period that roughly coincided with peaking public awareness of the epidemic and increasing government quarantines and travel restrictions. These measures severely curtailed activity in bars, restaurants and entertainment venues. Likewise, shopping malls, hypermarkets and supermarkets cut opening hours and saw very low traffic.

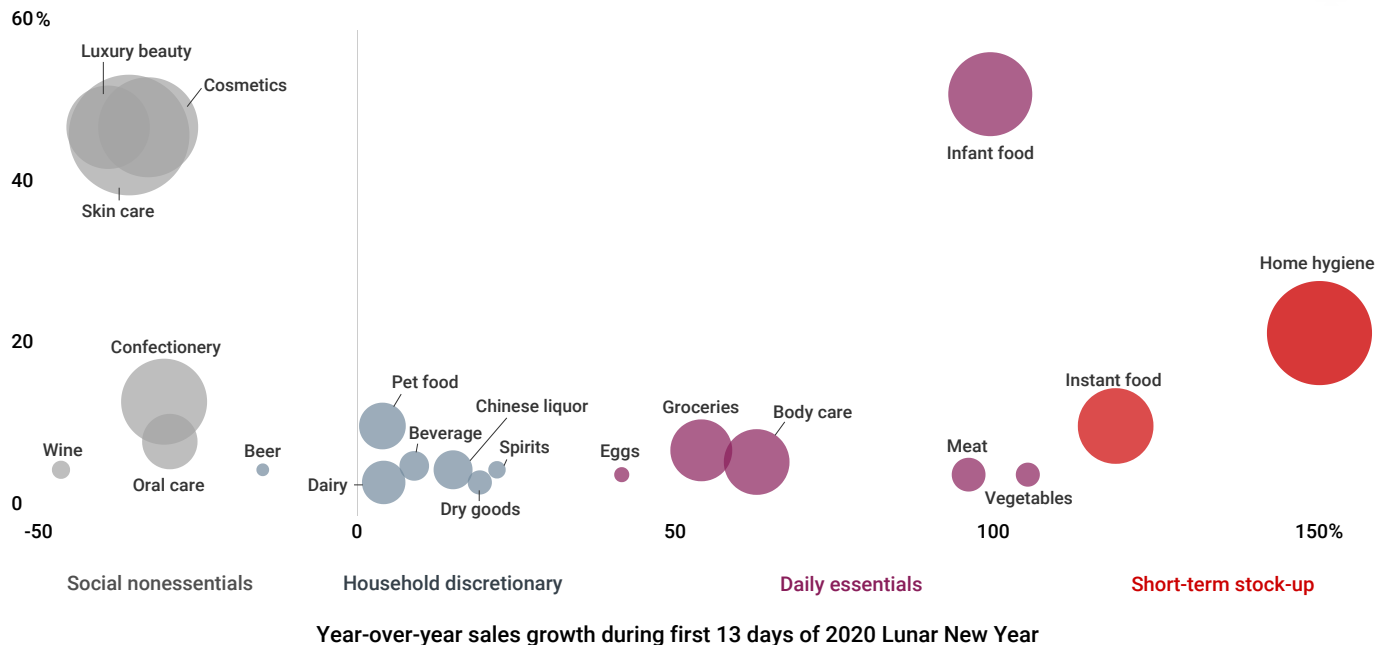
At the same time, however, consumer demand has prompted many traditional offline stores to launch online-to-offline (O2O) collection and delivery services for orders placed via the Internet—a sign that the COVID-19 epidemic may dramatically accelerate the ongoing move of consumer goods sales to online channels.

Using Chinese e-commerce sales data provided exclusively to Bain by Alibaba Tmall, we divided fast-moving consumer goods into four categories and measured their performance against the comparable holiday period from last year (see Figure 1), with the same methodology used in Bain's [2019 China Online Shopper Report](#), published jointly with Alibaba Tmall.

Figure 1

The outbreak caused dramatic shifts in online purchases of consumer goods

Normal online penetration (including O2O)



Notes: Size of circles represents GMV for first 13 days of 2020 Lunar New Year. Luxury beauty includes cosmetics and skin care products (this definition is based on price segmentation instead of product type). Tmall ecosystem includes Tmall, Tmall Int'l and 淘鲜达 (1-hour O2O delivery). Sources: Alibaba Tmall; Bain analysis; Bain and Kantar Shopper Report

Sales spiked in some categories that traditionally have low online penetration: the gross merchandise value (GMV) of daily essentials and short-term stock-ups (such as instant food and home hygiene products) increased 50% to 150% from last year. Shortages also caused a buying rush in some cases. A few products that already have high online penetration, such as infant food, nearly doubled in GMV.

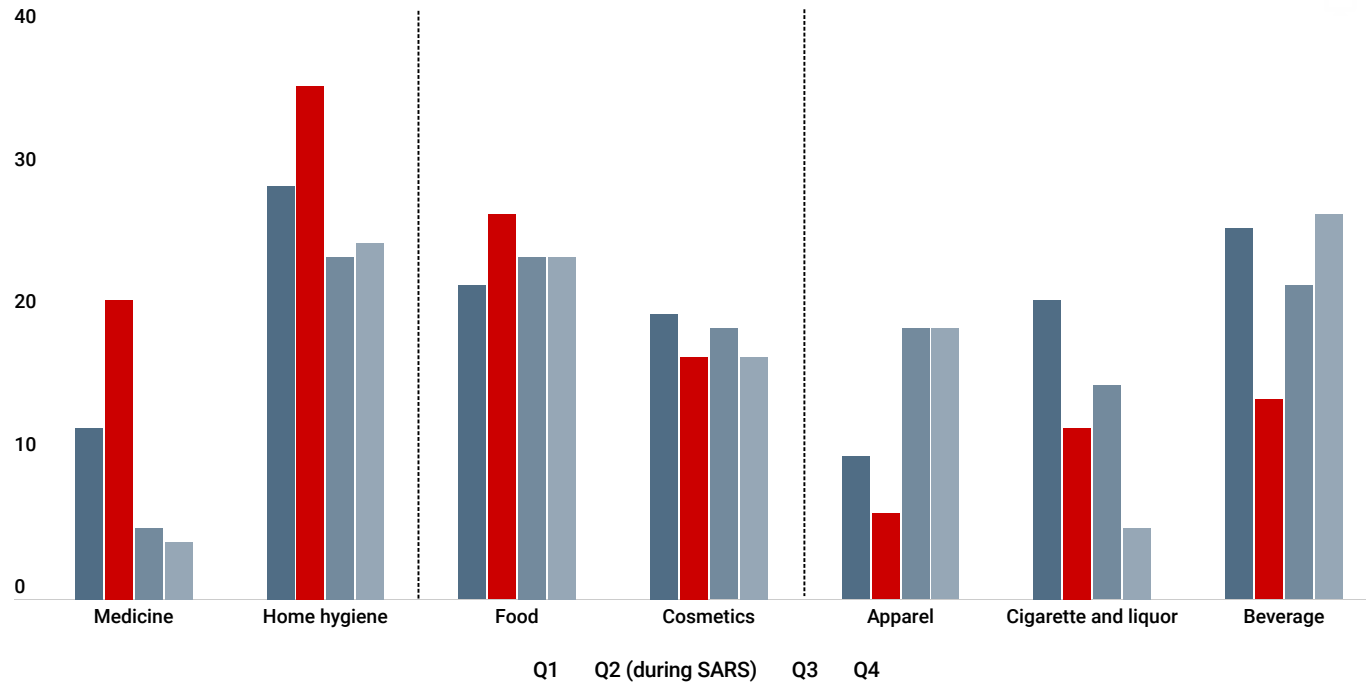
Discretionary purchases—spirits, beer, dairy products—remained about the same. But GMV for social, nonessential products, many of which have relatively high online penetration (such as cosmetics, skin care and luxury products), declined substantially.

While no one knows when the coronavirus threat will end, Bain expects the postepidemic consumption recovery to largely follow patterns similar to the 2002–2003 SARS outbreak (see Figure 2). That's likely to mean a steep sales decline for medicines and home hygiene products, a quick return to normal consumption for food and cosmetics, and a surge for apparel, cigarettes and some other items.

Figure 2

How consumer goods recovered after SARS

Year-over-year change in quarterly retail value, 2002–2003



Note: Food excludes grocery and fresh products like meat/eggs
Source: National Bureau of Statistics of China

Consumer goods makers likely to move further online

Bain also surveyed more than three dozen senior figures at makers of consumer goods, apparel and luxury products to gauge their response to COVID-19. Most of the China-based executives, drawn from both local businesses and multinationals, said they were expecting a substantial impact on sales in the first quarter of 2020.

Almost half of those surveyed—including makers of food, drink and luxury goods—estimated that first-quarter sales would be less than half their precrisis forecast; makers of personal care and home hygiene products were, understandably, less bearish.

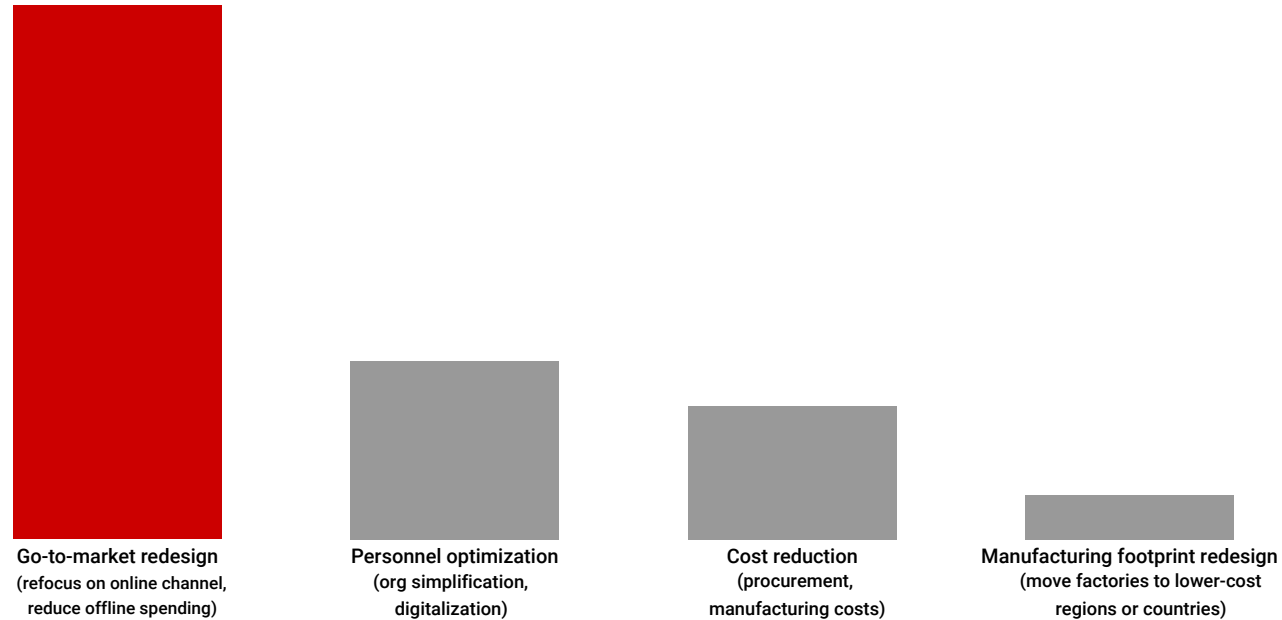
Asked to name the short-term challenges presented by the crisis, the surveyed executives focused most on the strain being placed on key business partners (especially the smaller ones) and the logistical difficulty of securing supplies and delivering products. Only 16% highlighted cash flow as an immediate issue. Two-thirds of respondents said they had cut their marketing budget. More than 80% had made adjustments to their promotional spending and supply chain. All said they had frozen hiring, but were not laying people off.

This short-term picture of companies scrambling to cope with the COVID-19 disruption is perhaps unsurprising. What is more meaningful, however, is the way consumer industry executives say they plan to respond longer term. Asked what measure would be key to their long-term coronavirus response, 60% said they were planning to overhaul the way their brands went to market, moving away from offline spending and toward online channels (see Figure 3).

Figure 3

What will be your long-term response to the coronavirus epidemic?

Percentage of executives choosing this option



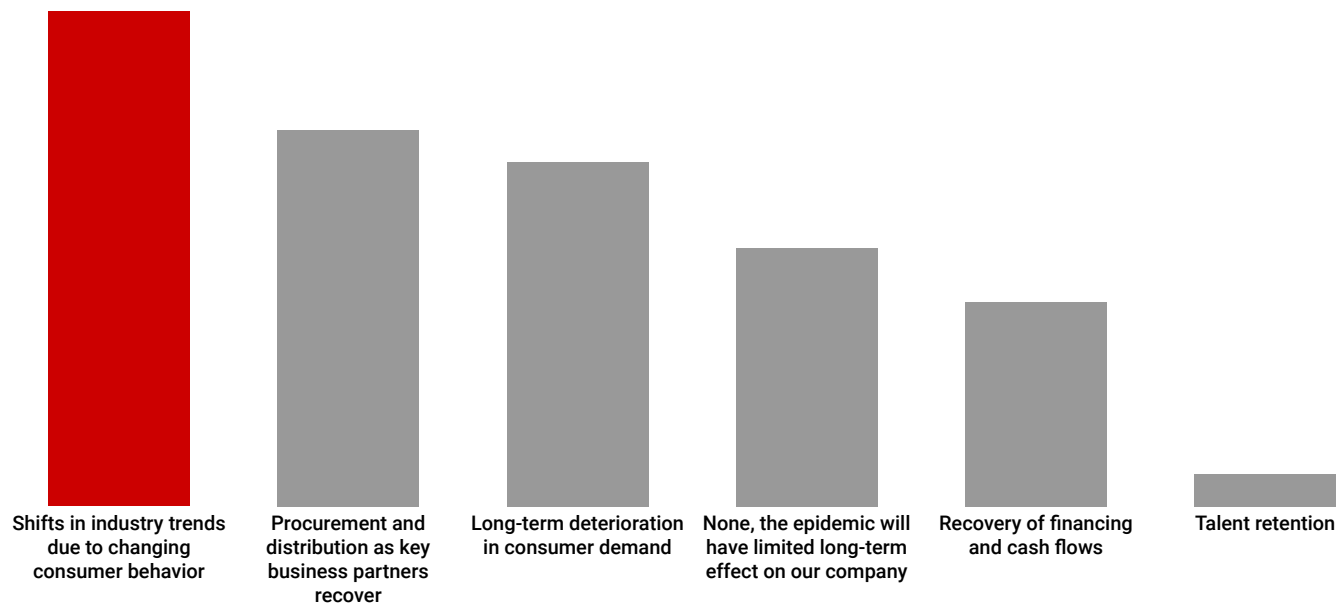
Source: Bain survey

That reflects the way online channels have come to the rescue of Chinese shoppers during the early stages of the outbreak, as shown by the various sales spikes in the Alibaba Tmall data. We think that this recent acceleration in the transition to online channels is unlikely to be reversed in many cases, and companies appear to be thinking the same way. Almost half of the executives Bain surveyed are bracing themselves for big, virus-related changes in consumer behavior between now and 2022 (see Figure 4).

Figure 4

What long-term virus-related challenges are you most concerned about?

Percentage of executives choosing this option



Note: Bars add up to more than 100% as executives could choose more than one option
Source: Bain survey

Balance short-term action with long-term strategic goals

COVID-19 represents a moment of truth for companies in China. As they strive behind the scenes to overcome shortages and other challenges, their customers are not the only ones with a stake in the outcome. Society as a

whole is relying on their contribution as corporate citizens, particularly in a sector such as consumer products, which is so crucial to daily life.

To fulfill this citizenship role, leading companies are already prioritizing two things: supporting employees during their own virus-related difficulties, and reinforcing the trust of communities in which they operate. Both priorities involve finely judged, long-termist responses to questions such as “when should staff go back to work?” and “how much should we support business partners?”

Even before the immediate operational challenges begin to ease, consumer industry executives should keep in mind the lessons of the recovery from SARS. For instance, they may benefit from bracing themselves for a drop in demand for short-term stock-up items such as medicines and home hygiene products.

They also need to pore over real-time consumption data to identify products that have proved unusually resilient (upgrading their analytics capabilities, if necessary). That same data can also help them anticipate new, virus-related shifts in consumer behavior that are likely to become permanent. In their supply chains, meanwhile, leadership teams can buttress their organizations by learning the lessons of COVID-19 quickly, investing to rectify any shortcomings with equal rapidity.

One of the great challenges of management is ensuring that fixes to urgent problems fit in with the strategic transformation planned for the longer term. But that is just what leading companies are likely to do during the coronavirus outbreak; the prevalence of remote working during the crisis could point the way to a cost-efficient digital reinvention of some processes, for instance.

Above all, the most forward-looking groups are likely to engineer their response today to support more seamless omnichannel distribution tomorrow, making investments and organizational adjustments as they go. They might lead some emerging changes in consumer behavior with a bold innovation of their own (an example might be automated replenishment of daily staples using the Internet of Things). But at the very least, they will swiftly follow consumers if—or when—they permanently adopt new shopping habits developed during the outbreak.

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