

A child with curly hair is seen from behind, using a wooden protractor and ruler to draw a white arrow on a dark chalkboard. The protractor is positioned at the top, and the ruler is horizontal. The arrow points to the right.

Covid-19: Learnings from China for Retail

Lessons from China

Webinar for Leaders in Retail

April 2020



OC&C
Strategy consultants

uncommon sense

We believe that actions with three key characteristics will define businesses during this trying period

Resilience

This will test your resilience – acting with pace and agility will be critical

Bravery

Unprecedented times call for bold measures; use the crisis to take decisions that in more normal times could have been impossible

Kindness

You will be remembered for how you engaged with your stakeholders: your employees, your customers and society at large

Agenda – key topics to cover today

How it is playing out in China: Impact of Covid-19

Reacting tactically: Actions brands have taken in China

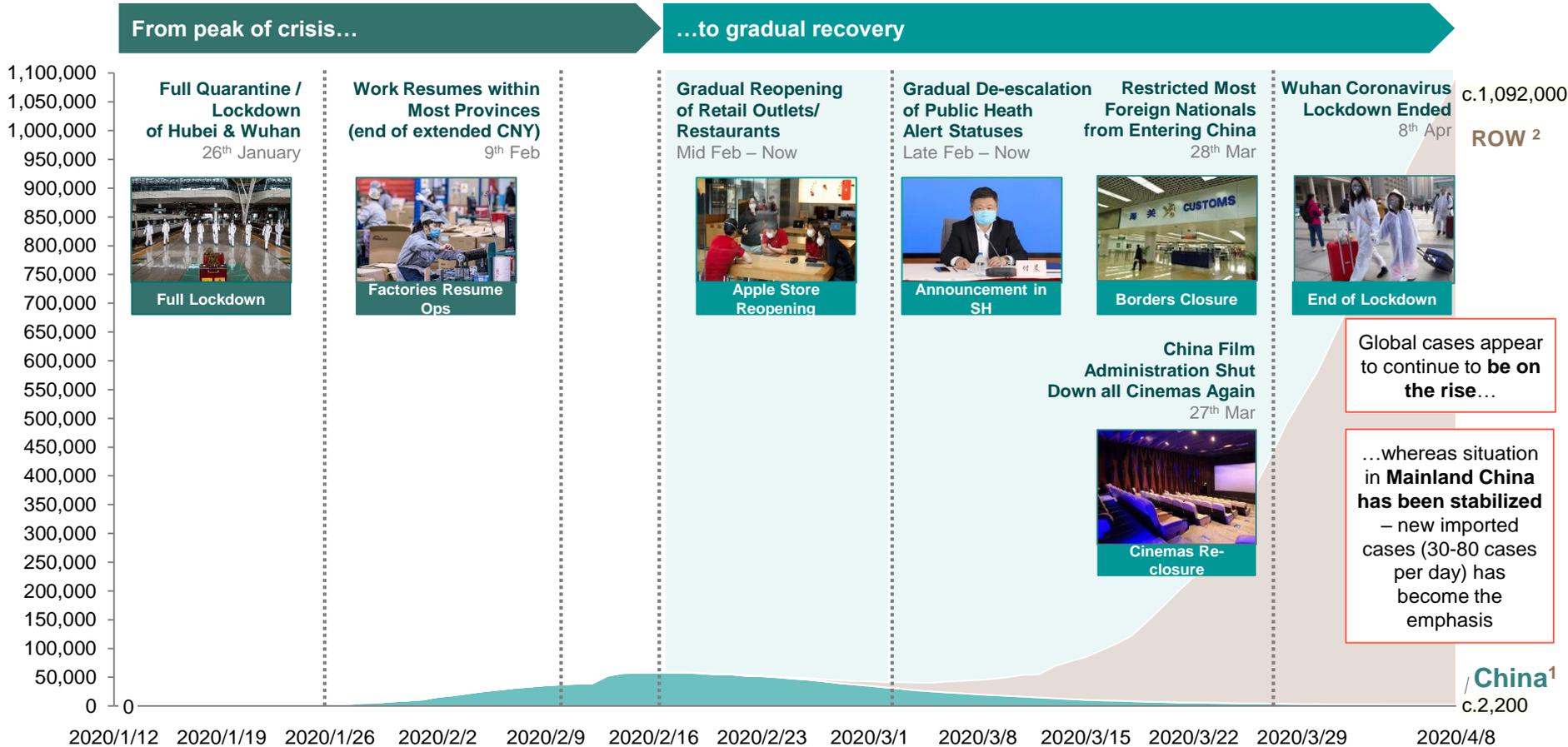
Thinking ahead: Prepare for the ‘new normal’



As the situation in China de-escalates, we are able to get a first glimpse of reactions emerging from the crisis

Proliferation of Coronavirus (COVID-19): China vs. ROW (Rest of World)
 # of Active Cases³ (# of Confirmed Cases - # of Deaths - # of Recoveries)

As of April 9th



Global cases appear to continue to **be on the rise...**

...whereas situation in **Mainland China has been stabilized** – new imported cases (30-80 cases per day) has become the emphasis

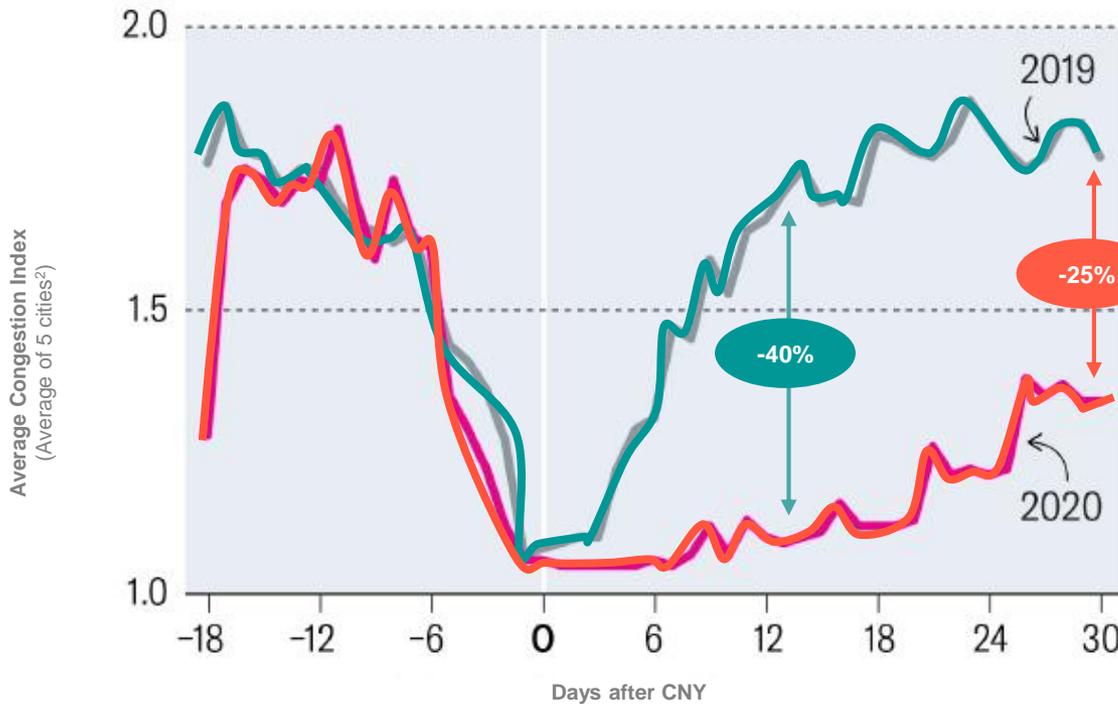
1. Hong Kong, Macau and Taiwan figures have been incorporated into the China figures
 2. Rest of world incorporates figures for all countries other than China incorporating Hong Kong, Macau and Taiwan
 3. Numbers used taken from CNBS before 22nd Jan, taken from John Hopkins database after 22nd Jan
 Source: Johns Hopkins University, CSSE, Chinese National Bureau of Statistics, Desk Research, OC&C Analysis



Traffic has begun to pick up in major cities 4 weeks after the outbreak, but at a slow and steady pace

Gradual Recovery – Average Congestion Index¹

As of 23rd March



- Congestion delays returned to **c.75% of 2019 levels** c.4 weeks after the outbreak, vs. c. 60% of 2019 levels at the most severe pandemic situation (early Feb) - suggesting that people are resuming their movement and activities
- 'Public health alertness' levels have been de-escalated in most areas following a period of 6 – 8 weeks of high alert

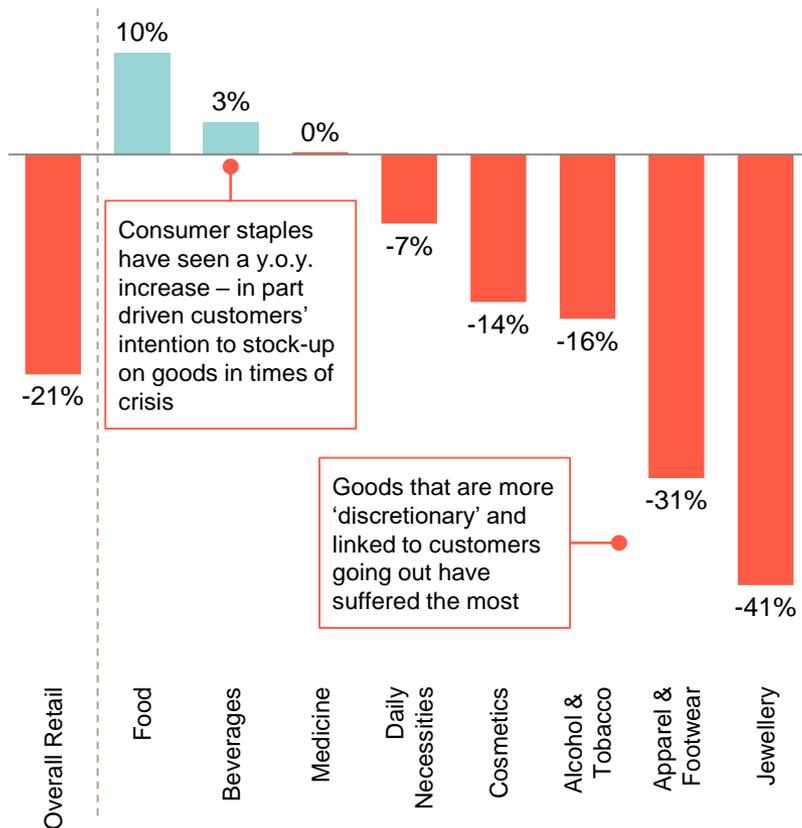
1. This is an average of the congestion levels within Beijing, Shanghai, Guangzhou, Shenzhen, Wuhan
Source: Desk Research, Expert Interviews, Harvard Business Review, OC&C analysis



Over the main crisis period Jan/Feb, the retail and consumer good industries have suffered significantly except for food & beverage

Impact on Retail Performance of in China

Performance of Consumer Good Subcategories^{1,2}
Value Year-on-year growth, %, 2019 – 2020 (Jan & Feb Only)



Most brands have foreshadowed poor China performance in Q1...



Sales expected to drop by up to **1Bn Euros** in Greater China in Q1



Sales down **24%** in Q1 (Dec 19-Feb20) despite a 27% YOY growth previously



Offline sales in mainland China was down by **c.50%** in the first 2 months of 2020

"Within the 1-2 weeks after CNY, traffic was down by **80-98%**, and sales dropped by **88%** on average"

- CCFA survey of fashion retailers

1. Not exhaustive – a selection of larger categories are selected to facilitate comparison

2. Excludes goods sold at above specific price threshold to externalise skewing effects of ultra-premium consumer products; Year-on-year growth calculated using RSP Sales Value of different categories

Source: National Bureau of Statistics of China; OC&C analysis

Online channels during this period have been more resilient, particularly where brands have taken positive action

Leveraging Online to Offset Losses: Selected Brand Examples

While overall retail **dropped by 20.5%** in Jan/Feb, online retail **actually grew by 3%**



30% increase online through APP and mini program in Q1 (overall 4% dip)



45% growth online through live-streaming (90% slump offline)



13Mn RMB monthly sales generated through mini program during the period



200Mn RMB sales in 10 hours driven by the exclusive online debut of its limited-edition Superstar trainers



68% increase in online sales through Tmall official store driven by live-streaming and star product marketing



Leveraging mini program limited-time store, Louis Vuitton boosted its **Valentine's Day online sales by c. 100%**

As we are getting into the recovery period, the offline retail is regaining momentum at different paces across categories

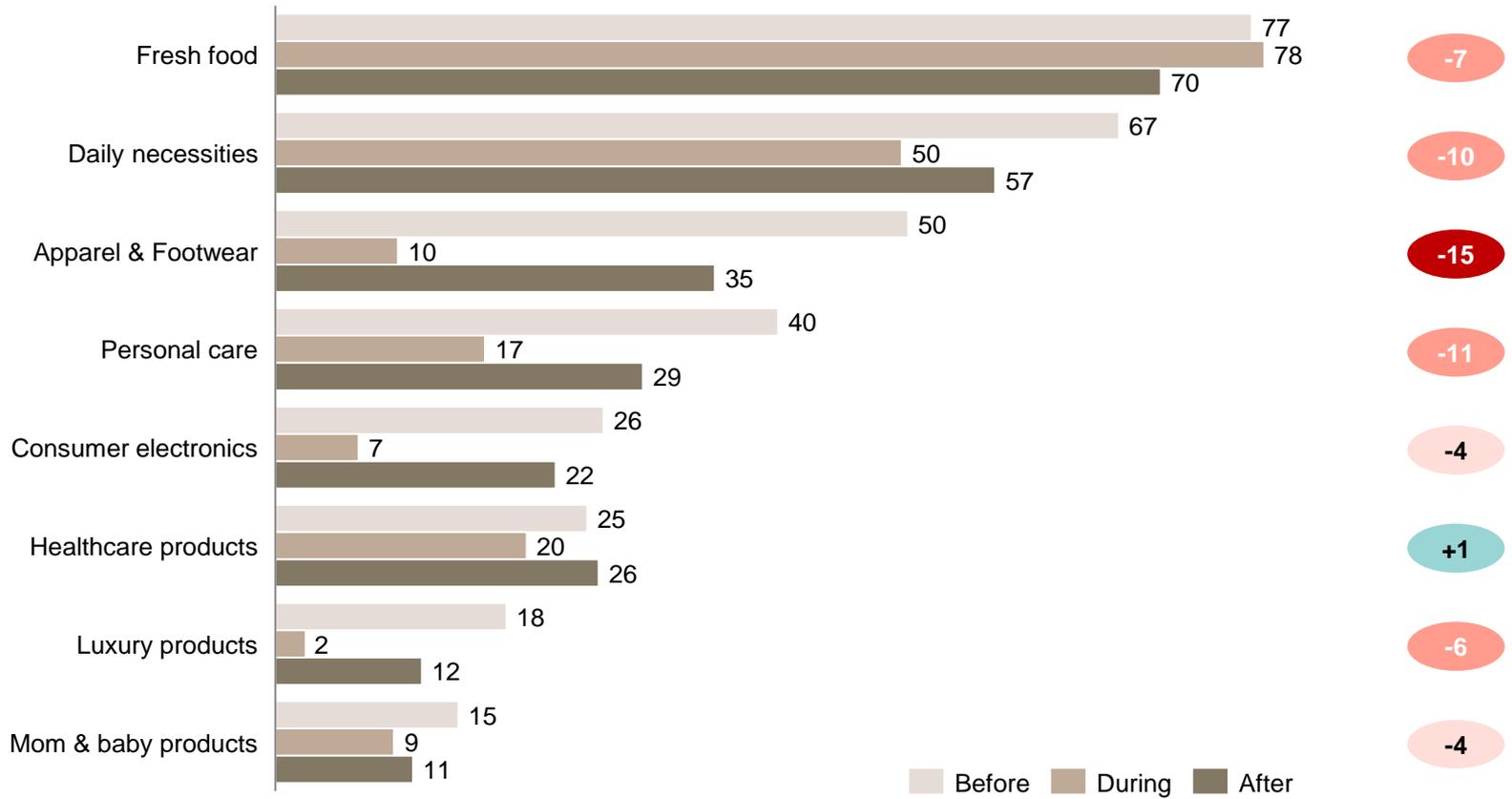
Consumers' Confidence

3rd party survey conducted in w/c 9th March

Preference for Offline Purchase¹

% of respondents, n = 1,000, Before vs. During vs. After Covid-19

Delta PPT
Before vs. After



1. Have you purchased (insert category) offline before (fixed time frame), during (fixed time frame) and after (fixed time frame) the virus situation?

Source: Idiaoyan, OC&C analysis



When stores re-opened in March, we saw aggressive discounts and safety measures in place, but the situation has started to normalise

Stores Reopening

When the physical stores first opened in March...

Large magnitude of discounts to attract visits

- Steeper-than-usual discounts compared to previous years during the same period (after CNY)
- E.g. Nike selling at up to 40% off at normal stores, Gap at c. 50% off



Nike slashing price across different re-opened stores, selling at up to 40% off

Volume based discounts used to encourage bulk purchase

- Increased prevalence of volume-based discounting to encourage customers to bulk purchase
- E.g. Fila offers additional 20% off for customers buying 3 pieces or more



Luxury shopping malls (e.g. Shanghai Raffle City) remain cautious – ensuring body temperate check to be in place regularly

Quicker movement of merchandise towards outlet stores to reduce inventory

- Merchandise has hit outlets (vs. remaining at regular stores) at a quicker pace to help clear seasonal-specific inventory
- E.g. Adidas plans to push a lot of its more seasonal items directly to outlet stores to alleviate inventory situation



Temperature check and flow control are also in place at a shopping mall in Chengdu

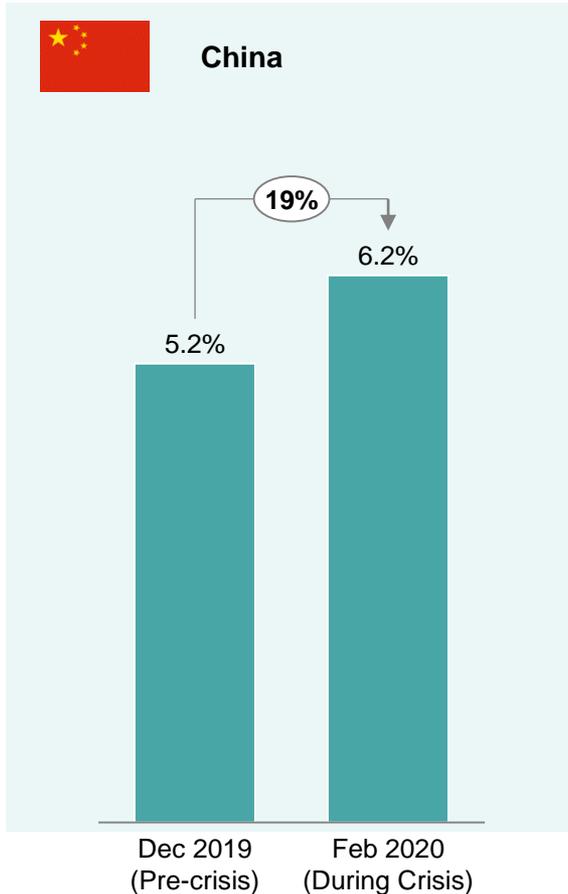
A month after re-opening in April, we start to see...

- **Cooling down in the degree of discounting** as the inventory level has been gradually lowered
- **Decreasing level of safety measures** such as showing of health code is no longer mandatory for entering some of the malls in Shanghai

Yet, Covid-19 has posed a noticeable impact on the employment market in China, esp. on the smaller companies

Unemployment Rate in China¹

Non-exhaustive



Companies across industries in China have taken various measures to reduce labour cost

Company	Industry	Measures
MiniSo	Retail	Proposed salary reduction and furlough
Laiyifen	Retail	Laid off over 80% of staff which received a grade C or D in appraisal
SAIC Motor	Automobile	Salary reduction of 20% to 60% depending on grade
Sunlands	Education	Reduced company's payment to accumulation fund
Nuoya	Finance	Salary reduction of 30% to 40% across different levels of senior management
OYO	Hotel	Reduced number of staff to c.2,700 in March 2020, from c.10,000 in Nov 2019
Xinchao	Media	Laid off 10% of staff which received the poorest rating in appraisal
China Fortune	Real Estate	Laid off 10-15% of staff
Tujia	TMT/Hotel	Laid off 40% of staff, which is equivalent to c.800 employees
Souche	TMT/Automobile	Laid off 13-14% of staff
Ctrip	TMT/Travel	Part of the staff received a 40% salary cut by taking 2 days of unpaid leaves a week

Retail
 Non-retail

1. Urban unemployment rate used for China
Source: National Statistic Bureau, Desk Research, OC&C analysis



During the hard hit period, leading brands and retailers have reacted tactically to overcome the predicament with the following principles

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Resilience

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Bravery

Unprecedented times call for bold measures; use the crisis to take decisions that in more normal times could have been impossible

Kindness

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Brands and retailers have taken various measures of “Resilience” to minimise losses and maintain their business integrity

Selected Measures of “Resilience”



Store Closure	<ul style="list-style-type: none"> Leading brands such as Uniqlo, Anta and Bosideng closed down over 50% of the stores to reduce operational cost
Store Opening Hours Adjustment	<ul style="list-style-type: none"> Leading brands such as Nike and Gap, adjusted their opening hours based on the individual store performance during non-peak hours to reduce operational cost
Rental Cost Re-negotiation	<ul style="list-style-type: none"> Brands, such as Peacebird, re-negotiated with landlord and sought rental exemption of 0.5 -1 month for over 50% of the stores in shopping malls during the period of the virus
Optimising Staff Utilisation	<ul style="list-style-type: none"> Brands (e.g. Inman, Fairwhale) shifted under-utilised manpower from offline stores to support the surge in online business Other retailers adopted staff sharing to attain flexibility (e.g. 40 retailers/restaurants shared 2.7k of their staff with Hema¹ as storekeepers and logistics staff to support its surging sales)
Production Suspension	<ul style="list-style-type: none"> Brands temporarily closed down factories (e.g. GAP) or paused/reduced production (e.g. Fairwhale) in order to minimise the inventory for the likely-affected season
Leverage Government Supportive Measures	<ul style="list-style-type: none"> Brands and retailers apply for short-term loans through the “green channel” provided by the People’s Bank of China to resolve the cash flow problem

Non-exhaustive

N/A

Creative ways are used to keep the employees engaged and maintain staff utilisation during the crisis

Examples of Measures of “Resilience” (1/2)

Non-exhaustive

Optimising Staff Utilisation

Chinese companies made full use of online resources to ensure effective remote working and good utilization of downtimes



- **Anta** adopted remote working from 3 Feb to 17 Feb
- Encouraged frequent online conferencing, with over 4,000 meetings held and 10,000 staff involved everyday to engage staff
- Provided over 300 different online classes for staff to better utilize downtime



- **Sunning** arranged over 280k staff members to work from home
- Launched its proprietary software (苏宁豆芽), with functions e.g. schedule sharing, progress tracking, etc.
- Encouraged communication through small group chats, where over 11,000 new groups on the proprietary software are built on the first day of remote working

The flexible allocation, sharing and outsourcing of manpower are also essential in response to the changing channel landscape due to the crisis situation



- **Carrefour** and **Sunning** formed strategic partnership on staff sharing
- Over 1,000 staff of Sunning offline store have been shifted to support Carrefour online grocery and flash delivery service, where the demand has surged by 3.5 times during crisis



- **Hema** collaborated with 40+ retailers, karaoke operators and restaurants, and recruited over 2,700 of their under-utilised staff to support the increasing demand of online grocery sales
- Initiative was well received in society for benefiting the underemployed of staff on furlough

When needed, some companies have also taken aggressive measures in order to reduce labour cost

Examples of Measures of “Resilience” (2/2)

Non-exhaustive

Optimising Staff Utilisation

Salary reduction, furlough and layoff could be inevitable measures, but achieving a consensus across the firm and conducting it on a meritocracy basis remain important



- **Laiyifen** conducted a restructuring during the crisis on a meritocracy basis, laying off 83% of staff which have received a performance grading of C and D (on a scale of A-D), and 15% of new-joiners of tenure within a year



- **Mini So** proposed two different plans which involve salary reduction across all grades, and furlough of part of the staff based on the utilization to collect staff's opinions before execution

Brands also continued to engage with consumers during this time, staying relevant through innovative and “Brave” actions

Selected Measures of “Bravery”

Non-exhaustive



<p>Extensive Use of Online Platforms for Product Promotion and Sales</p>	<ul style="list-style-type: none"> To make full use of available online channels, such as live-streaming social platforms (e.g. Tik Tok, Kuaishou) and WeChat, for product launches, promotions and sales (e.g. UA, wechat store), which some brands have not previously established a presence (e.g. Adidas)
<p>Creative Consumer Engagement under the Context of Covid-19</p>	<ul style="list-style-type: none"> To launch initiatives that cater for the needs of customers, engaging them during the lock-down For instance, online home workout tutorial initiative launched by Anta; hygienic advices sharing online for customers by Semir
<p>Leverage Unconventional Sales Channel</p>	<ul style="list-style-type: none"> To drive sales through unconventional channels, including incentivising staff to sell through their personal networks (e.g. WeChat Groups) and Daigou i.e. personal shoppers (e.g. Nike using daigou on wechat) and even partnering with Meituan food delivery app (e.g. Sephora)
<p>Innovative Ways of Discounting</p>	<ul style="list-style-type: none"> Leverage different occasions (e.g. family and friends sales; women’s day, etc.) to provide discounts in order to drive sales and clearance of inventory, without damaging the brands’ image (e.g. Hailan lantern festival discount)
<p>Temporary Expansion of Product Category</p>	<ul style="list-style-type: none"> To expand into categories such as daily necessities and hygienic products (e.g. sales of masks and household products by Semir), which are of high demand under the virus impact



Given the challenges in physical retail, brands and retailers are mobilizing their staff and other resources to drive sales online

Examples of Measures of “Bravery”

Non-exhaustive

Extensive and Creative Use of Online Platforms for Product Promotion and Sales

Brands mobilised their physical store staff to conduct live streaming online...



balabala

Balabala mobilised their staff of 400+ offline stores to set up 50+ online stores on leading live streaming platform, Kuaishou to conduct video streaming for 10+ hours per day, attracting 100K+ audiences per day and generating substantive sales

...as well as leveraged the external sales force on social commerce platform to drive sales



Multiple brands have participated in **Yunji's** new initiative “衣臂之力”, where over 3mn members were incentivized to promote selected apparel brands during the spring season launch in March

Leverage Unconventional Sales Channel (e.g. C2C, partnering with food delivery app)

Physical store sales assistants could leverage their own customer contacts and network to conduct direct selling...



DIOR

Dior's sales representatives made use of their personal contacts with long-term customers on WeChat for product promotion and flash sales through group chats and WeChat Moment postings

...where some brands even extend the effort to recruit their customers as a part of the sales force



茵曼

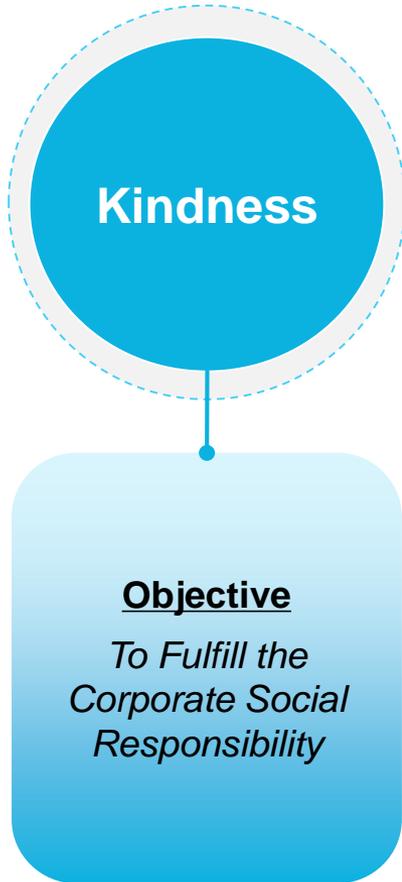
Inman recruited 10,000 brand ambassadors from their current customer base to help promote and sell products through their own personal networks, and rewarded them with 20% + of the sales value as commission



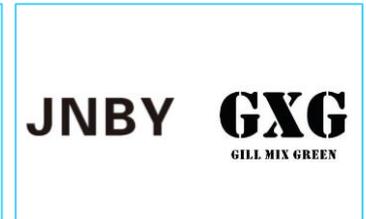
Furthermore, brands and retailers played the role of socially responsible corporate in combating Covid-19

Selected Measures of “Kindness”

Non-exhaustive



<p>Kind to Consumers / Customers</p>	<ul style="list-style-type: none"> To maintain a high level of hygiene for the all unaffected and re-opened stores after lockdown to protect and give confidence to consumers E.g. regular cleaning (e.g. Zara), rules to require staff wearing mask at work (e.g. Uniqlo), temperature check at stores (e.g. Heilan Home)
<p>Kind to Society</p>	<ul style="list-style-type: none"> To support disease combatting with donation of money and unsold apparel (e.g. Uniqlo donated 7,100 thermal clothes, Adidas donated 10mn RMB to NGO for purchase of medical supplies) To re-engineer the under-utilised production line for the manufacturing of medical equipment for donation to government (e.g. Bosideng manufactured protective suits 1500-2000 pieces per day for charity during the time of virus)
<p>Kind to Employees</p>	<ul style="list-style-type: none"> To ensure the well-being of employees by providing masks (e.g. La Chapelle) and shuttle bus services (e.g. Cosmo Lady) To promise secured salary for employees during the period of virus (e.g. Heilan Home)
<p>Kind to Business Partners</p>	<ul style="list-style-type: none"> To allow a longer payment period and up to 100% product return from 3rd parties distributors / franchisees to bear the impact together with the partners (e.g. JNBY launched special arrangement to allow up to 100% product return for spring season from distributors)



As far as the resources allow, it is important for companies to safeguard the welfare and morale of employees

Examples of Measures of “Kindness”

Non-exhaustive

Kind to Employees

Securing the income of employees during the crisis will have strong positive impact on employees’ morale



- **Anta, Cabbeen** and **Ajidou** issued a promise to all of the staff that there will not be reduction in the base salary or layoff due to the virus situation (however, the frontline sales representative would still suffer from the reduction in income due to the loss of sales commission)

Companies should take the hygiene and well-being of employees seriously by providing necessary protection



- **Anta** provided its staff with hygienic and protective items such as facial masks, hand sanitizers and hand wash, partly through proprietary production



- **Hailen Home** provided point-to-point shuttle bus service to reduce the risk of infection of their staff on the way to work when taking public transport

ESTÉE LAUDER

- As the stores reopen, **Estee Lauder** ensured all staff wearing mask during working hours, wearing gloves while serving customers and washing hands after serving each customer

A direct and transparent communication from the top could help enhance the staff morale and company image



- Director of **Original Chicken** released a video to express gratitude to staff who stayed in their roles during the crisis, resulting in a very positive feedback and viral sharing on social media



- **Harmony's** management shared a video with all staff at the time of store re-opening to strengthen the morale



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Bravery

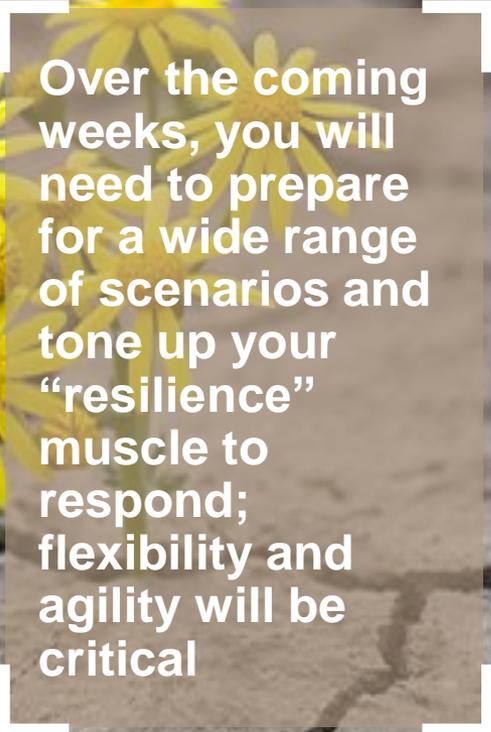
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Resilience



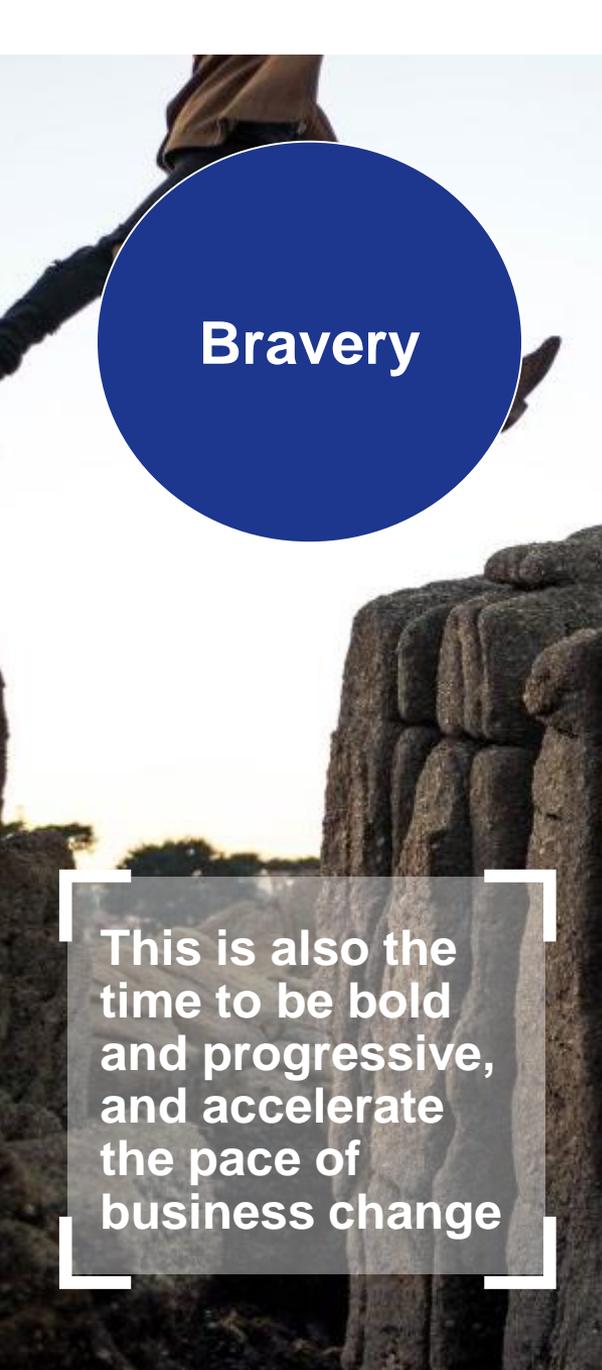
Over the coming weeks, you will need to prepare for a wide range of scenarios and tone up your “resilience” muscle to respond; flexibility and agility will be critical

Increase Flexibility to Deal With Demand Volatility

- 1 Undertake robust scenario planning** to give yourself the best chance of preparing for what's to come; avoid optimism bias; dial up flexibility; establish dashboards looking at leading indicators to understand which scenario is playing out
- 2 Consider the need for radical interim adjustments to the business model** in light of highly volatile trading windows and social distancing requirements; consider options to deploy labour more flexibly
- 3 Actively review forecasting and manage supply** to ensure you are focussing on customer needs (which are disrupted) and minimising complexity and risk
- 4 Optimise marketing spend** recognise importance of staying relevant during closures; adjust to new shopping behaviours, review changing economics of channels

Stimulate Demand When and How You Can

- 5 Invest to rapidly acquire (or retain) customers;** invest to maximise the lifetime value of new customers, rapidly and aggressively plan the 'reignition' strategy for dormant or lapsed customers
- 6 Quickly experiment** with new models to stimulate demand during more constrained trading, e.g. digital models, social selling, partnerships
- 7 Adjust pricing, promotions and service** to stimulate or bring forward demand (e.g. promotions, value price points, credit / vouchering, return and service policies); adjust pricing to reflect new price elasticity
- 8 Use colleague bandwidth** during down-times to focus on brand building and customer loyalty initiatives



Bravery

This is also the time to be bold and progressive, and accelerate the pace of business change

Build Flexibility & Focus In The Cost Base

- 1 Refocus the proposition to be more effective;** consider opportunities to value engineer, rethink customer loyalty and investments
- 2 Revisit the supplier and distribution base and renegotiate terms;** react to changing demand patterns, rethink strategic partnerships with suppliers / distributors, reset terms structures
- 3 Revisit organisation and operating model and ensure it is fit for future demand patterns;** think about how your business can operate at variable capacity on the recovery & potential future shut-down
- 4 Reimagine the physical portfolio;** harness opportunities to refocus and reimagine the network. Adapt formats to 'new normal' consumer demand and seize opportunities to profit from new models and vacancies

Accelerate Model Reinvention

- 5 Develop a more aggressive and future proofed digital plan;** reinvigorate digital strategy, plot a far more aggressive path, and think more expansively about partnerships to accelerate
- 6 Develop a clear point of view on new go-to-market models;** work out how you exploit the changing in-home consumption trends, think about how you access profit pools upstream and downstream; think about opening up your ecosystem to others
- 7 Rethink partnerships and acquisitions;** where can you accelerate capability build, vertically integrate or de-risk the journey through working with others; where do you need to exit partnerships as they do not work any longer
- 8 Take a strategic view on filling the potential void left by competitors;** who are the players (or sub-sectors) who may fall behind in the journey? How do you extend and focus your proposition to benefit?



Kindness

Now and in the 'new norm', businesses will be remembered for how they engaged

Take Steps Now to Play Your Part

- 1** **Safeguard employees and customers – be “clean”** actively demonstrating that you are taking customer and employee hygiene and health seriously
- 2** **Get the tone right in your communication; continue to engage** with all stakeholders (customer, employees, investors, suppliers), and transition communication from “transactional” to “community” based
- 3** **Support your most valued partners through the crisis** ensuring that the business ecosystem is robust for the future
- 4** **Use assets for the broader good** finding ways to support the community and economy during the crisis, think creatively about repurposing assets

Use as an Opportunity to Revisit Your Corporate Responsibility Agenda

- 1** **Revisit the sustainability agenda** as consumer behaviour shifts with a potential reset of consumption patterns and what matters; think about how you incorporate fundamental changes as you reconfigure your supply chain
- 2** **Use new ways of working as a springboard to support diversity and inclusivity** considering how remote working practices set up during the crisis can create a more inclusive and flexible workplace going forward
- 3** **Rethink your role in the community**, in a 'new norm' where community is important

We'd be delighted to share more or debate the implications further, drawing on the insight of our global retail and consumer team



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Thank you!



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