

"Situational Thinking + Phased Preparation + Motivated Rally"

How consumer products & retail enterprises can win the battle against COVID-19

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Foreword

After the Spring Festival stay-in comes a new round in the fight against COVID

China's nationwide efforts against the ongoing novel coronavirus outbreak have boosted the already rapid development of the "home economy", driving China's world-leading online services to a higher level.

Whether it is staying up to order groceries on the phone at midnight, or thoughtful innovations in non-contact delivery, the mutual support found in WeChat community groups, or offline stockpiling by people who seldom leave their homes to shop

for groceries at supermarkets, recent developments prove that products, channels, services, and experiences are evolving around the clock. Aside from the aforementioned stress reactions, the months-long battle against the coronavirus outbreak is sure to change Chinese consumers' daily habits, consumption patterns and ways of thinking.

Everyone is concerned about the evolution of the novel coronavirus, but it is time to resume work

and production. The adoption of remote work and education have interfered with people's post-holiday consumption, challenging the consumer products and retail industry.

In this special context, consumer product and retail enterprises should consider the following three questions:

1

Do we have a full, accurate understanding of the changes to consumer end demand and scenarios?

2

Have we started making term plans for our resources and capabilities in different situations?

3

Are we prepared to grasp potential growth opportunities and even achieve transcendent development or overtake peers after the epidemic reaches its turning point?

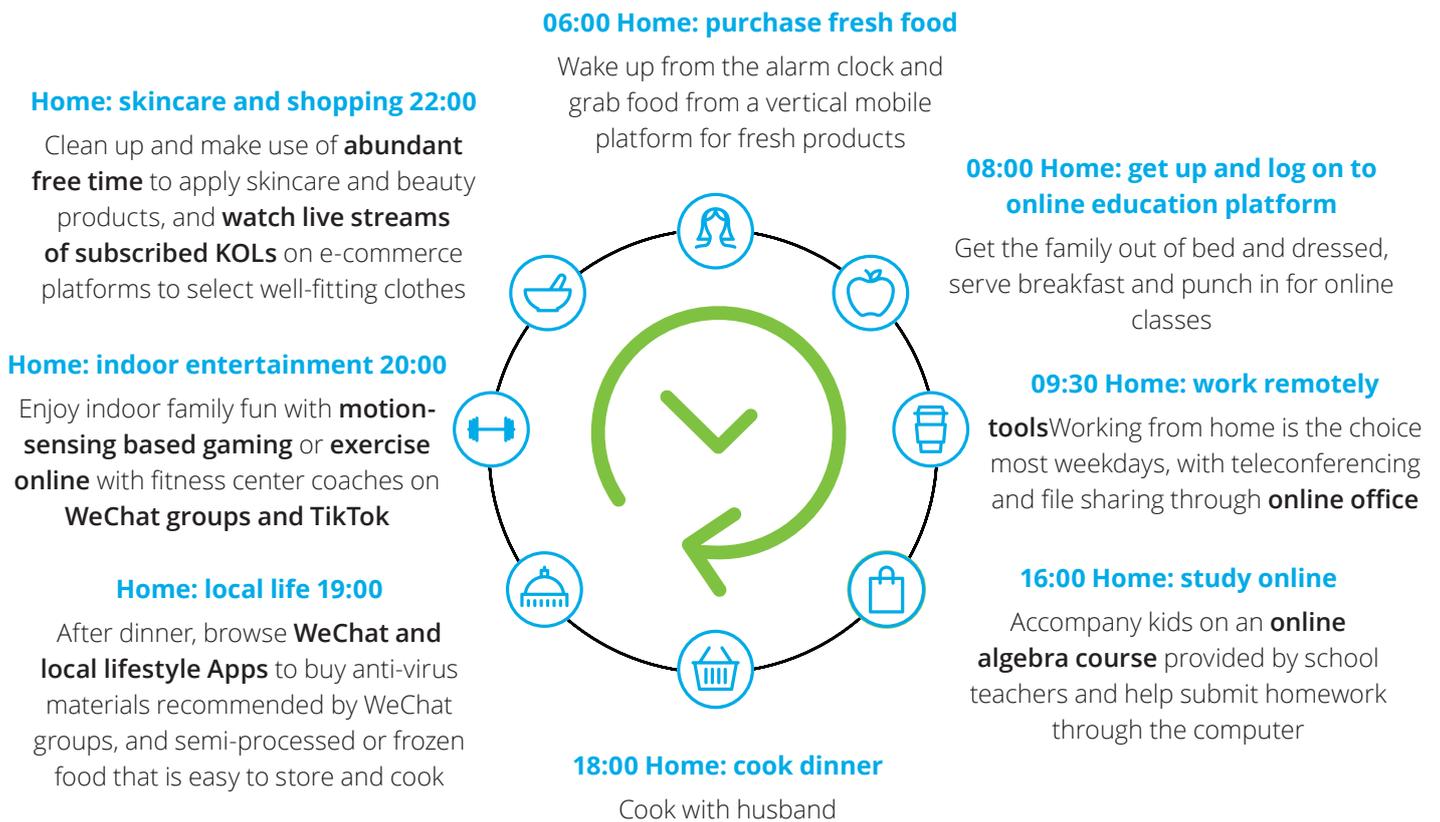
Memory of a consumer's typical day

Consumers utilize mature O2O services to make their lives more refined and convenient, gradually making mobile terminals to enable rapid coordination of online and offline scenarios.



Consumers' current typical day

Forced to spend much more time on online work and education platforms, consumers have started to rely on doing most of their daily work and tasks through mobile, O2O non-contact services



Three industry predictions

Transformation and upgrading is vital, and innovation essential for scenario-based services

Everyone is impacted by the epidemic. The anti-COVID battle's effect on consumers' daily lives can be seen every minute and in every area, especially in food & beverage,

apparel & footwear, beauty, retail and education. We predict three scenarios for these industries once the epidemic is under control.

Quick recovery of sectors with high demand

Food & beverage:

- Development of frozen, self-heating and instant food industry chain will continue to be promoted to ensure supplies during the epidemic
- Due to the epidemic's impact on consumer behavior and habits, "online-sales" and "non-contact delivery" will become standard even after the industry recovers
- Consumers' close attention to hygiene will extend to health regimens, and their awareness of the need to improve immunity will surge, prompting escalating consumer demand that can only be met by upgraded materials, techniques and equipment

A retaliatory rebound

Apparel & footwear:

- Inventory incidents will mean most enterprises' survival is determined by two quarters of destocking and withdrawal of funds, prompting reshuffles and integration in most segments
- Some brands' use of onsite workplaces, party venues, gyms and other gathering places will remain limited, boosting demand for indoor footwear and loungewear
- Tight need to temporarily shut down or even close stores, providing an opportunity for business restructuring and store network reorganization

Beauty:

- Fewer makeup scenarios will give rise to new areas of demand, including "home makeup", "mask makeup" and "contrast makeup", which influences the increase pattern of beauty products
- Offline beauty stores face a downturn, but demand for in-home skincare will increase
- Supported by increasing use of virtual technologies, online shopping and offline store-based WeChat group purchasing will gradually replace offline shopping, making decentralization imperative for the beauty industry

A retaliatory rebound

Retail:

- Non-contact demand during the epidemic boosted fresh food supermarkets, and will continue to change buying habits
- Sanitary conditions in shopping malls and supermarkets will continue to attract great attention, spurring wider use of unmanned supermarkets and service counters, and robots
- The establishment and maintenance of online platforms and WeChat shopping groups will be indispensable for offline stores, and online-offline service integration will continue to increase

Education:

- Online education boom: the epidemic has reduced the cost of customer acquisition to zero, reinforcing people's online study and payment habits and forcing more professionals to join online platforms to provide education services, increasing demand for adult education and creating an opportunity to reform online education profit models
- Industry reshuffle: the epidemic will lead to the reorganization of offline education institutions, enhance the integration of online-offline operations, and attract more capital to promote further industry disruption

Beauty

Amid suppressed short-term demand, brands should promptly adjust their marketing content and product portfolios, and accumulate loyal customers and valuable consumer data through a rare window during which online shopping is the mainstream

Consumer Pain points and behavior changes



Home makeup: less cosmetics, more skincare

Staying at home means having much less need for makeup, but although cosmetics use has declined, having enough time at home has prompted more spending on skincare



Stockpiling habits and retaliatory consumption

Beauty consumers long-term shopping habits make them used to stockpiling. Staying at home gives them more time to compare different products. This trend will become more apparent as logistics recovers



KOLs gain traction but offline counters are left out in the cold

Consumers will continue to avoid personal contact even after the epidemic ends, especially when beauty products that require contact to try. Extended home time deepens interaction between consumers and online KOLs. Based on KOLs' recommendations, more consumers will choose to place orders directly online

Impact timespan



Short term Medium term Long term

Brand Coping strategies

Focus on new home makeup scenarios; update product portfolio and marketing ideas

- Identify changes in consumers' beauty product use and conduct in-depth analysis of latest scenarios
- Deliver more skincare-oriented content based "home makeup" concept and encourage skincare and applying makeup through topic-based, viral marketing

Dig deep into customers' historical data to lock in consumption during the next purchase cycle

- Analyze existing customers' behavior and take the initiative to lock in potential consumption in the next cycle with discounts and content pushes that reinforce replenishment habits

Strengthen cooperation with e-commerce operators and promote digitalization of brand counters

- Online, brands should cooperate with e-commerce enterprises and cultivate vertical "waist KOLs" to generate high-quality content, converting more interest into profit at lower cost
- Offline, brands should advance the digitalization of their counters to enable better consumer experiences and data collection, making counters the foremost source of consumer insights

Beauty

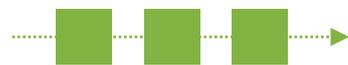
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Food & Beverage

Food & beverage enterprises can, according to identified pain points, speed up R&D on semi-processed and instant food, increase e-commerce capabilities and use precision marketing to win customers.

Consumer Pain points and behavior changes



Increasing purchases of instant food

People are cooking for themselves more often due to various restrictions in place during the epidemic. Semi-processed food that is easy to cook, instant food in small packages, as well as barreled drinking water, have become extremely popular.



Online purchasing now 1st choice

To avoid face-to-face contact as much as possible, online purchasing channels like e-commerce platforms and delivery Apps, as well as non-contact shopping approaches such as unmanned convenience stores, have been embraced by consumers, further increasing the penetration rate of online purchasing channels.



Well-known brands favored in stockpiling

Consumers who stockpile so they have to shop less often during the epidemic favor well-known names over new niche brands.

Impact timespan



Short term Medium term Long term

Brand Coping strategies

Take the opportunity to develop new products

- Enterprises can draw inspiration from local cuisines to develop semi-processed food that is easy to cook, as well as healthy and safe instant foods
- Packaging design that covers food containers of various dimensions and types, including family-sized and small, one-person boxes, to serve different eating scenarios

Improve online capabilities

Collect and analyze sales data from different channels in real time to adjust and optimize layout, and promote transformation from traditional offline operations to innovative, omnichannel retailing. Focus on improving online operations and other capabilities throughout the supply chain to improve risk resistance

Reshape customers' shopping habits through precise marketing

- Tap consumers' psychological need for brand selling points during the epidemic and showcase the health features of products through precise marketing to improve understanding
- Interact with consumers through WeChat, Weibo, and other platforms to share health knowledge and the latest anti-COVID information, easing consumer anxiety and increasing brand exposure

Retail

Retail enterprises should remove all obstacles to and accelerate omnichannel layout, as well as put themselves in consumers' shoes to reflect on and optimize shopping process design and improve the shopping experience

Consumer Pain points and behavior changes



Turn to fresh food O2O

In the short term, consumers will buy fewer non-essential goods and gradually shift to fresh food O2O delivery platforms and purchasing channels



Reorientation from supermarkets to convenience stores

Consumption scenarios are reorienting from supermarkets to convenience stores, with consumers willing to pay some premium for proximity.



Offline shopping transformed by the epidemic

Although the spread of the epidemic is slowing, consumers' desire to shop in malls and offline stores will remain low. Once the epidemic is fully controlled, suppressed shopping demand will prompt them to return to the mall

Impact timespan



Short term Medium term Long term

Brand Coping strategies

Speed up online-offline layout coordination

- Retail stores need to accelerate online channel layout. Companies can cooperate with 3rd-party platforms or self-build long-term distribution systems based on their size and economic effectiveness
- Seize the moment to build online community groups and increase sales by pushing collective purchases of new products in WeChat and community groups

Adjust shopping processes to add convenience

- Convenience store operators can provide quick pick-up and delivery based on consumers' pain points, and consider reducing personal contact throughout the shopping process
- Supermarkets can launch reserved parking or similar services to enable seamless shopping experiences

Prepare in advance for rising consumer flow

- Large shopping malls need to make adequate preparations for a slow rise in consumer flow, and have good sanitation management and protection so consumers can enjoy a safe shopping environment
- Work with commercial tenants to plan future promotional activities, and prepare for rising footfall after the epidemic ends

Education

COVID-19 has boosted the development of online education. The next stage will see a focus on new traffic conversion, O2O business model creation and regional expansion

Consumer Pain points and behavior changes



Active/passive online studying

"No suspension of education" despite schools being closed has accelerated awareness and participation in online education. On one hand, students have to take their schools' online classes. On the other, parents are worried about children's learning, so are purchasing online, after-class courses



Desire for a better online experience

The online education market is still in its infancy, and many educational institutions have been forced to rush launches of online platforms due to COVID-19, resulting in poor learning experiences. The removal of DingTalk from the App Store exemplifies students and parents' dissatisfaction



Actively seek quality educational resources

Spending more time at home has prompted adult consumers to browse and search for quality educational content and knowledge online, using the time to recharge and find interesting, lively content to meet their cognitive needs

Impact timespan



Short term Medium term Long term

Brand Coping strategies

Convert new traffic to create O2O

During the COVID-19 outbreak, the cost of acquiring online education users has fallen to almost zero. Enterprises with mature online platforms should consider how to turn new users into loyal ones. Enterprises with immature online businesses need to clarify their strategies as soon as possible, as well as form closed O2O loops for positive online customer-offline business interaction

Consolidate online teaching, research and service experiences

Online education is not just about moving teaching online. Educational institutions that intend to develop online businesses need to develop and design them from multiple dimensions such as technology and platform, teaching and research, and after-school services, as well as strengthen their online faculty, technical personnel and marketing development

Leverage industry reshuffle to expand nationally

The epidemic is having a big impact on traditional small and medium-sized offline educational institutions. Powerful medium-sized and large institutions can leverage this to promote regional M&A and cooperation, and develop into industry leaders

Suggestions

Get ready for a new, better start!

Situational thinking

- An uncertain future is the ultimate challenge in enterprise development and business strategy formulation. Although anti-COVID work is complicated and arduous, the World Health Organization holds the anti-epidemic measures taken by China in high regard. Deloitte also firmly believes the united efforts of the country will end in victory. The aforementioned uncertainty hinges on when the epidemic will reach a turning point. Therefore, based on macro-situational thinking, we would encourage companies with limited resources not to be overly pessimistic. Consumer product and retail enterprises should energetically adapt to constrained consumer demand in the next 2-3 months, as well as ongoing consumer stress reactions, to get ready for retaliatory consumption
- We strongly recommend that consumer product and retail enterprises monitor changes in consumption scenarios and consumer motivation, promptly identify the impact of consumer stress reactions on consumption behavior and pain points in the consumption experience, as well as energetically respond at the product, service and supply chain levels to show their brands' deep concern for people affected by the epidemic

Phased preparation

- **In the battle against the epidemic, consumer product and retail enterprises have assumed important social responsibilities to ensure essential supplies and maintain social order. Therefore, enterprises need to make adequate planning and preparation for their short, medium, and long term strategies.**
 - Short-term: fulfil their social responsibilities, rationally allocate production and logistics resources, and ensure supplies of materials; enterprises in areas related to people's livelihoods and education that have been forced by COVID-19 to develop online services should think about how to retain stalwart offline customers after the epidemic
 - Medium-term: observe changes in consumption habits and scenarios; design products and service portfolios that meet new needs and address pain points in the consumption experience; navigate changes in consumption scenarios and corporate digital transformation
 - Long-term: predict possible retaliatory consumption growth and industry conditions; make strategic arrangements for employee allocation, store layout, product reservation, and service innovation; build comprehensive consumer data, online platforms and support services based on demand changes under stress model to get ready for full arrival of escalating demand

Motivated rally

- According to observations from Deloitte Global and Deloitte Consulting's decades of experience in serving large and medium-sized enterprises, when the macroeconomy or consumption demand are at a low ebb, it is actually a great time for enterprises with strategic vision to cultivate and improve their skills and explore new development directions
- Enterprises that invest well during tough periods for internal management, especially those previously at a disadvantage, can enjoy remarkable growth in market value after a rebound. If the right strategic choices are made and strategic reserves are prepared during a trough, they are likely to catch up rapidly with industry-leading enterprises and achieve disruptive progress

Conclusion

Despite the novel coronavirus break, life continues for each of us as ordinary consumers ...

Many of our clients in the consumer products and retail sector have been the backbone of society's fight against COVID-19!

We hope more consumer and retail enterprises under stress will fully utilize this opportunity to enhance their situational thinking, emphasize phased preparation, and skillfully rally from current lows

Best wishes

We hope that as the epidemic ends and Spring comes, you will remain strong, happy and healthy!

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