

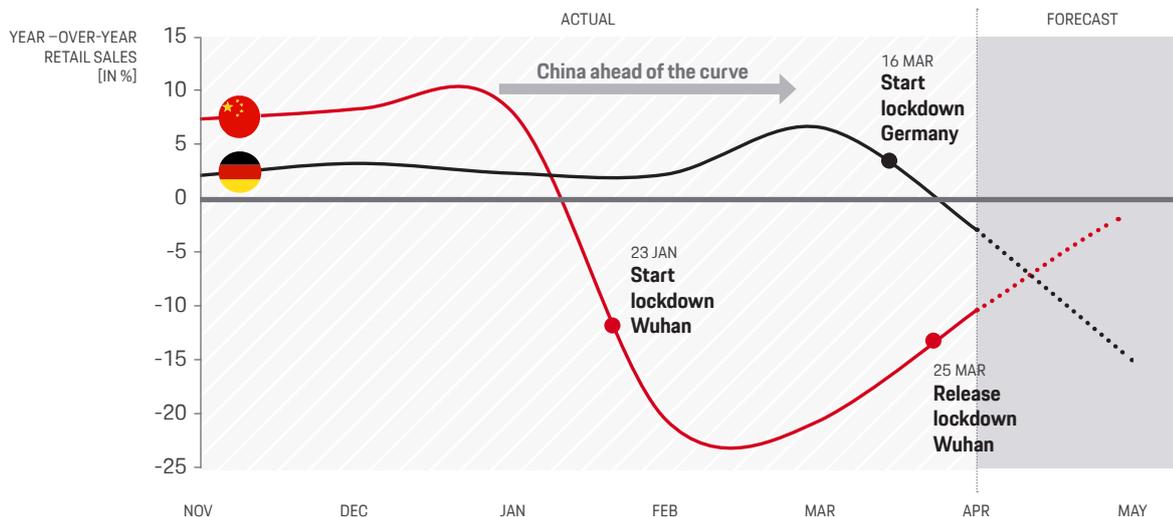


► What retailers can learn from China's response to COVID-19

What retailers can learn from China's response to COVID-19

COVID-19 has swept the globe, with almost 2 million infections as of middle of April 2020. The outbreak and containment of the virus in China provide valuable insight into the impact retail business should expect, as the virus forces more and more countries into lockdown.

Retailers in the Western Hemisphere can now take a lesson from China in preparing to re-start business effectively. Porsche Consulting proposes measures that integrate first-hand insights from the crisis-stricken city of Shanghai.



Source: <https://tradingeconomics.com/china/retail-sales-annual>

© Porsche Consulting

Figure 1. China (CN) imposed its lockdown orders eight weeks earlier than Germany (Ger.). This resulted in Chinese YOY sales decreasing more than 20 percent.

China is ahead and may have turned the corner

The hit to China's consumer goods spending has been severe. Reuters reports that year-over-year (YOY) sales were down 20 percent in the first two months of 2020.¹ According to Bloomberg, store traffic in the luxury segment fell as much as 80 percent compared to last year.² While much of the country remains under strict government-enforced quarantine to contain the virus, the first provinces are lowering their emergency

response levels, indicating a restart of routines. Additionally, Apple announced it is reopening all 42 of its stores in China.³ This follows news that Starbucks has already ramped up 85 percent of its roughly 4,200 stores there.⁴ Finally, research analysts are hopeful for an economic recovery, predicting the Chinese economy will grow 15 percent quarter-on-quarter from April to June.⁵

¹ <https://www.reuters.com/article/us-health-coronavirus-china-retail/as-chinas-coronavirus-outbreak-eases-a-wary-return-to-shops-for-consumers-idUSKBN21447W>

² <https://www.bloomberg.com/news/articles/2020-03-12/luxury-shoppers-in-china-emerge-from-quarantine-to-buy-again>

³ <https://www.businessinsider.com/apple-reopens-all-42-retail-stores-in-china-2020-3?r=DE&IR=T>

⁴ <https://www.businessinsider.de/international/starbucks-reopens-china-stores-citing-signs-of-coronavirus-recovery-2020-2/?r=US&IR=T>

⁵ <https://www.cnbc.com/2020/02/26/jpmorgan-china-gdp-up-15percent-in-q2-after-negative-coronavirus-driven-q1.html>



Key insights from the lockdown phase

The sudden appearance of the crisis and the intense lockdown measures brought an unprecedented boom to online shopping; even stores that remained open for the bare necessities had hardly any on-site customers. And why would there be traffic when brick-and-mortar businesses were able to take advantage of new, rapidly forged alliances between online platforms and third-party delivery services? Deliveries were organized to central drop-off points by couriers or even using fully autonomous services such as Neolix. During the lockdown, for example, food retailers reported a 25 to 30 percent increase in e-commerce and delivery sales.⁶

Stores still experiencing offline traffic took aggressive measures to prioritize the health and well-being of employees and customers. Measures included security personnel at the entrance enforcing social-tracing app status (red: rejected,

green: entrance permitted), automated temperature screening, raised store humidity, 100 percent mask policy, frequency limitation based on a store's size, social distancing, and rules for hygiene. The store staff were trained in contactless experiences and special sanitizing protocols.

But what about stores that were fully closed, such as fashion boutiques and beauty retailers? There was an unprecedented rise in the online interaction of retailers and brands with their consumer base via apps such as TikTok and Taobao Live. For example, cosmetics company Lin Qingxuan redeployed over 100 beauty advisors from its Wuhan-area stores as online influencers, leveraging digital communication to engage customers virtually and drive online sales. As a result, sales in Wuhan achieved 200 percent growth compared to the previous year.⁷



Getting ready for recovery mode

China is currently experiencing a phased and controlled ramp-up of retail activities. Not all regions will reopen for the public at the same time, and stores will continue to operate with elevated safety protocols and reduced opening hours.⁸ This ensures that established safety, health, and hygiene measures will be maintained.

Furthermore, new store concepts are emerging to cater to the restrictions and promote contactless shopping. Unmanned grocery stores have been opened in Wuhan. The stores use a cashier system developed by Alibaba's Taoxianda and offer fresh food delivered by Taobao. Taoxianda says their custom cashier system was built within five hours and does not produce paper receipts—hence no staff need replace paper rolls.

Another potential East-West insight: supermarket chains and grocery retailers responded to the crisis by launching joint employment initiatives with restaurant chains, such as Alibaba's Freshippo and JD.com's 7Fresh brands.

Focusing on postcrisis business planning, leading retailers and vertically integrated brands use advanced analytics to identify the best product and pricing levels for each store by channel and region, while monitoring progress on a store-by-store basis. These activities are particularly important for reopening a whole store network, shifting merchandise and products to the most effective place to ensure the right volumes at the right time. Finally, we can observe that direct-to-consumer strategies have risen sharply as suppliers have lost their wholesale customer base and are looking to sell online directly to the end customer. This has happened in a closed market, as China is not yet open for imports. Overall, observation suggests that offline consumer trust returns slowly. Shopping malls and grocery stores are not as full as they were before the crisis for two reasons: anxiety about the environment and product safety, on the one hand, and acclimation to the convenience of online shopping, on the other.

⁶ <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/e-commerce-drives-china-s-stay-at-home-economy-in-coronavirus-aftermath-57642723>

⁷ <https://hbr.org/2020/03/how-chinese-companies-have-responded-to-coronavirus>

⁸ <https://www.forbes.com/sites/pamdanziger/2020/03/13/starbucks-reveals-the-aftermath-as-coronavirus-death-grip-on-china-is-starting-to-lift/#141700803a5d>

01

▶ **Communicate**

when stores are open for business again. It may sound trivial, but customers need to know when and which products will be available. Communicating all safety measures that are in place, whether visible to consumers or not, will help instill confidence to return.

02

▶ **Steer**

product supply strategically. As regions will be ramped up successively, consider abandoning order reservations and contracts in favor of inventory pools. Industry and brands must centrally monitor and steer the dropping and replenishment of product and its reallocation to areas where it is needed first and most urgently. This requires new, temporary models of partnership between industry and retail regarding volume and payment terms.

03

▶ **Create**

transparency around products. Consumers can be averse to products whose origins are unfamiliar or unclear. Ensure that products are safely packaged and the value chain is traceable.

04

▶ **Comfort**

the offline customer base and employees with safety measures while fully implementing local health and safety regulations. Introduce visual and haptic nudging methods to encourage compliance with hygiene and health recommendations. Customers will only return to the store once they feel safe.

05

▶ **Train**

the store staff to receive customers in a uncertain environment. Approach and sales assistance should be adapted to the new reality, as staff and consumers meet in a place that has recently been a no-go area.

06

▶ **Prepare**

your headquarters early. The ramp-up of business will subject the central functions to increased levels of stress, as all process and organizational measures are defined, organized, trained, managed, and controlled.

CONCLUSION

Until the pandemic subsides in the Western Hemisphere, everyone will have to hunker down and weather the storm. The lessons from China, where offline business has slowly returned in regional phases, provide a unique opportunity for retailers and brands to prepare themselves for the reboot.

Successful navigation of the crisis means leveraging the vast opportunities of online communication, thoroughly preparing processes and the organization of stores and headquarters, finding new and advanced models to optimize assortment and demand planning, and implementing measures to keep consumers and employees safe and healthy.

Contact



Jan Stoeckel
Associate Partner | Retail
T: + 49 711 911 12107
E: jan.stoeckel@porsche-consulting.com



Juntian Dong
Senior Manager
E: juntian.dong@porsche.cn

Porsche Consulting GmbH is a leading German strategy and operations consultancy and employs 670 people worldwide. The company is a subsidiary of the sports car manufacturer Dr. Ing. h.c. F. Porsche AG, Stuttgart. Porsche Consulting has offices in Stuttgart, Hamburg, Munich, Berlin, Frankfurt am Main, Milan, Paris, São Paulo, Shanghai, Beijing, Atlanta, and Belmont (Silicon Valley). Following the principle of “Strategic vision. Smart implementation,” its consultants advise industry leaders on strategy, innovation, performance improvement, and sustainability. Porsche Consulting’s network of 12 offices worldwide serves clients in the mobility, industrial goods, consumer goods, and financial services sectors.

Porsche Consulting

Stuttgart | Hamburg | Munich | Berlin | Frankfurt a. M. | Milan | Paris | São Paulo | Atlanta | Belmont | Shanghai | Beijing

www.porsche-consulting.com

© Porsche Consulting 2020