

BAIN & COMPANY 

# COVID-19 Webinar for Institut du Commerce

## Recent learnings from China

April 1st, 2020



WELCOME

# HOSTS



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# Most countries are still in escalation; Singapore, Japan, Korea and China seem to emerge in (tenuous) recovery

## PHASE ONE



### Emerging situation

- Virus is present, but has not yet impacted a large population
- Government has not taken action
- Day-to-day life is still mostly “normal”
- Variable public sentiment, *“it’s just the flu”*

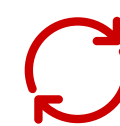
## PHASE TWO



### Rapid escalation

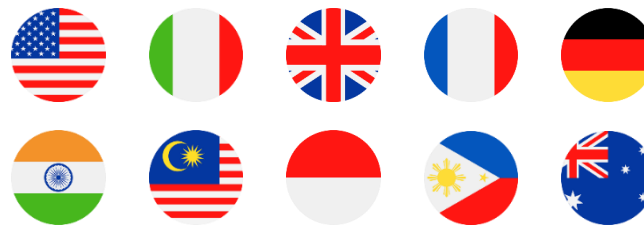
- Virus has become prevalent
- Governments take restrictive actions to contain virus
- Retail operations & daily life strongly impacted
  - Retail that remains open is overloaded with stock-outs etc.
  - Retail that is forced to close, must focus on protecting cash

## PHASE THREE



### Recovery & Controlled\*

- The situation progressively returns to (a new) normal
- Competitive positions and customer relationships may have been significantly altered



**US, most of Europe, Australia, Indian subcontinent and SEA in phase 2**



**China, Korea, Japan and Singapore starting to emerge into tenuous recovery**

Note: \* Domestically controlled, probably with threat from imported cases

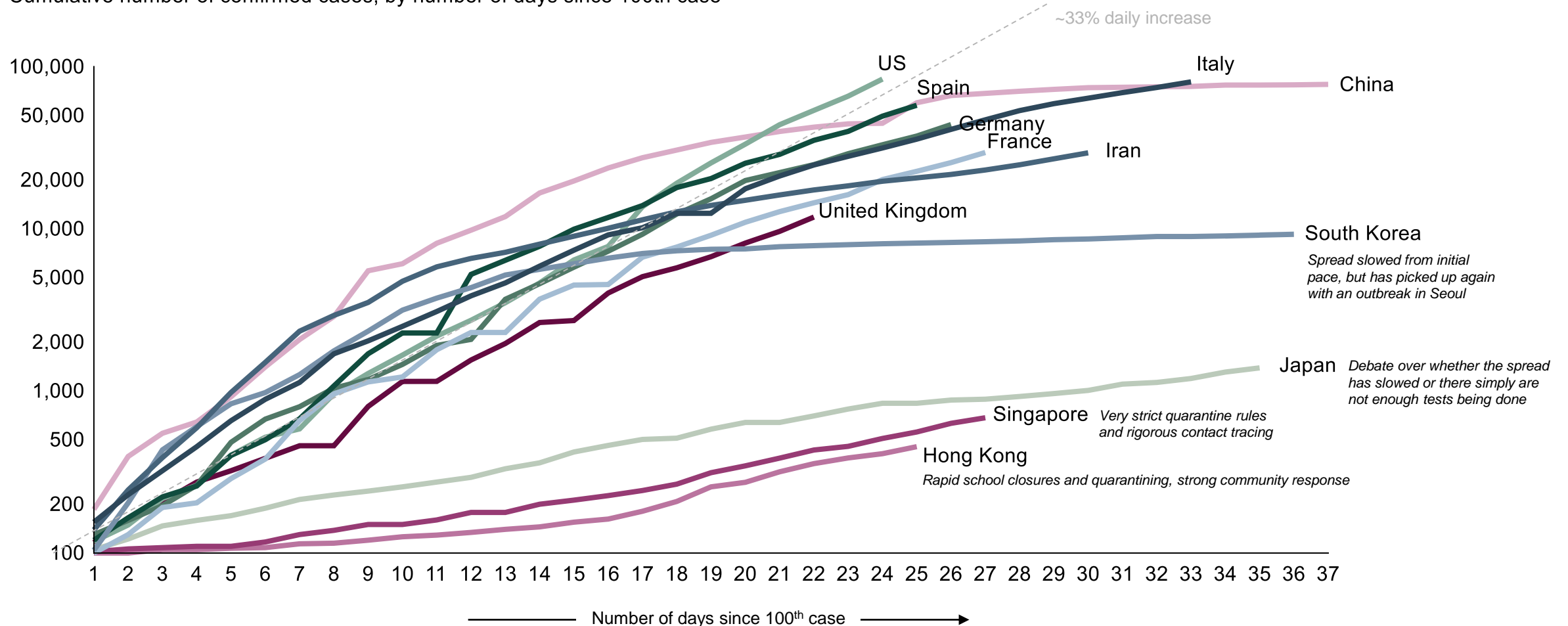


# The cumulative number of confirmed cases seems to have plateaued in China

CURRENT STATUS

/AS OF /MARCH 26 2020

Cumulative number of confirmed cases, by number of days since 100th case

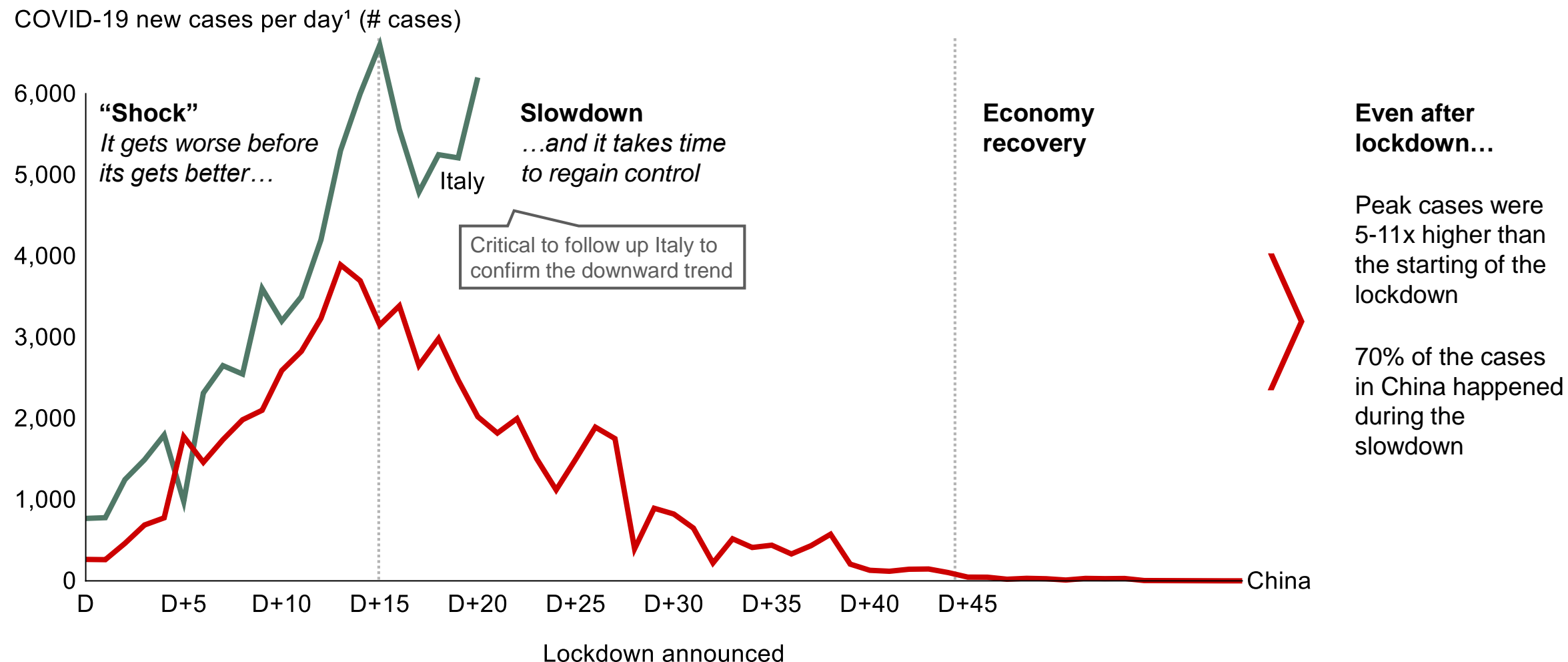


Source: Johns Hopkins University, CDC, WHO, Financial Times, Bain Macro Trends Group analysis

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# Economic impact highly depends on the effectiveness of the suppression measures

/ UPDATED ON MAR, 26<sup>TH</sup>

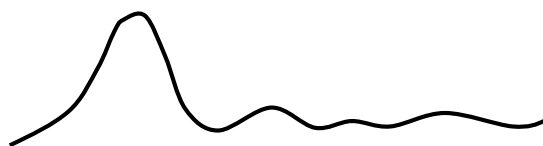


1) Average of last 5 days  
Source: JHU Coronavirus Data Stream`22/03; Tableau

# Going forward, there are **3** possible scenarios

## Shock and recovery

1



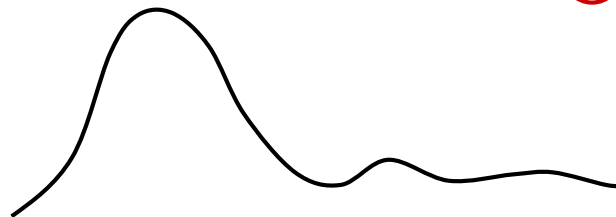
Suppression cycle followed by mitigation

Lockdown will be successful and will reduce virus transition

After control, countries would adopt efficient mitigation measures that will avoid the return of the virus and allow economy to normalize

## Extended suppression followed but controlled mitigation

2



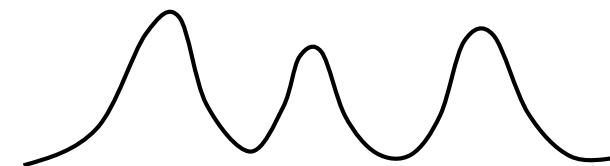
The outbreak takes much longer to be controlled

Current suppression measures would not be enough to slow down the curve and/or other focus will appear. A more severe lockdown measure would be taken at a later moment allowing to regain control.

After control, countries would adopt efficient mitigation measures that will avoid the return of the virus and allow economy to normalize

## Sequence of suppressions due to lack of control

3



Multiple outbreaks & suppression cycles

After controlling the first cycle of the outbreak, transmission will quickly rebound when interventions are relaxed

Mitigations measures won't be effective to keep contamination at low levels. Second cycle will be less intensive than the first one, but will still slow down the economy

Number of new cases

What we need to believe?

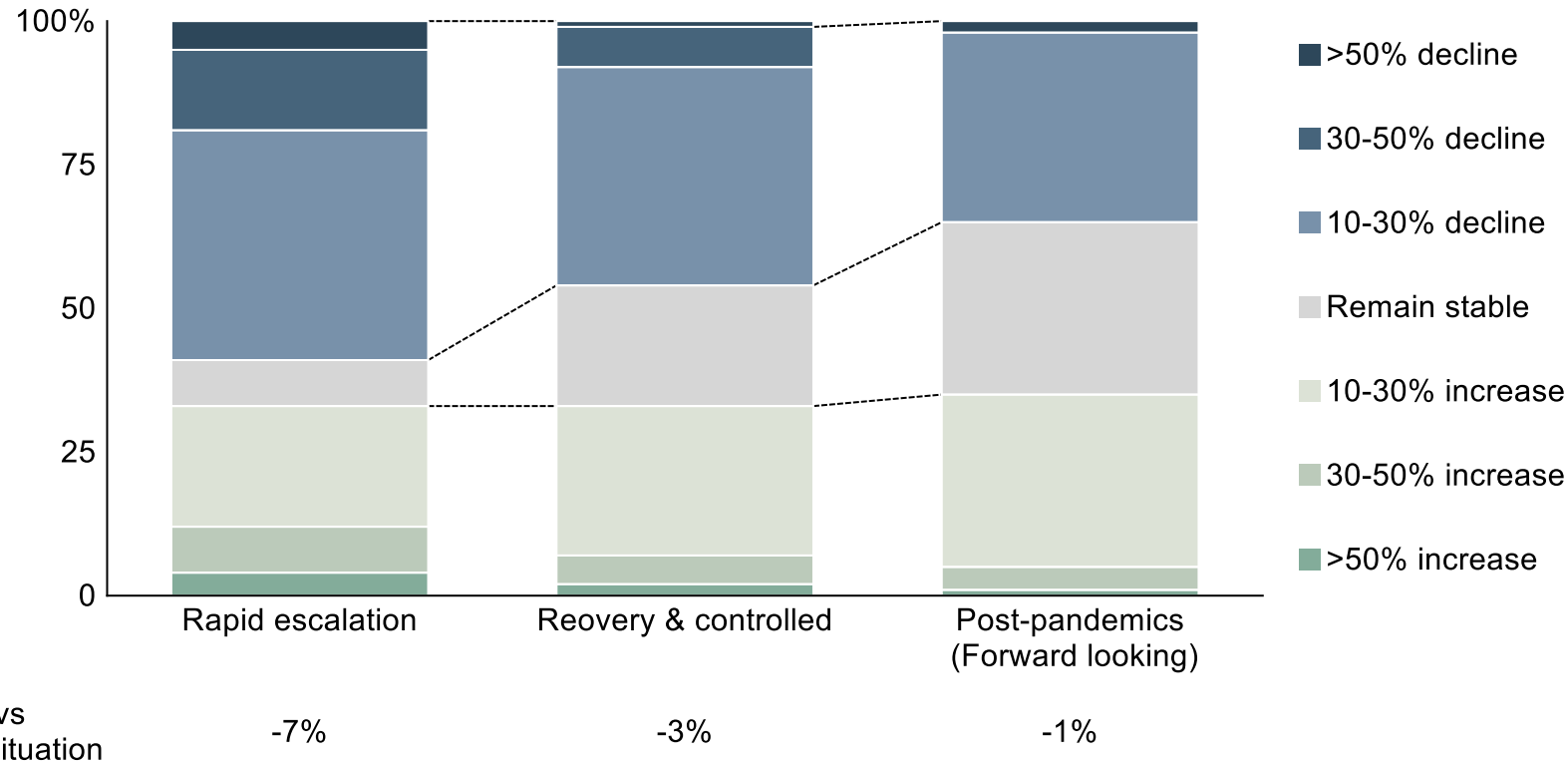
# Household spending has declined moderately (lowest at ~10%, partially driven by supply), and majority of consumers expect spending back-to-normal post crisis

## SPENDING

### Consumer spending expects to recover post COVID-19

**Q** How did/will your household spending change compared to emerging situations in different stages of COVID-19?

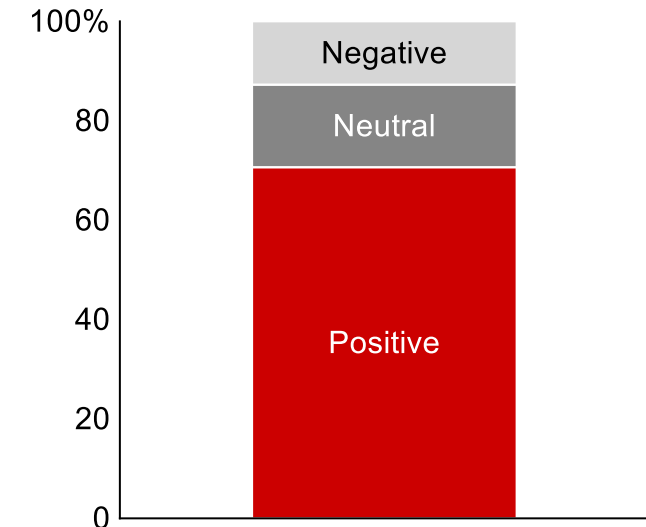
Consumer spending change in various stages of Covid-19



### Consumer are positive about future economy

**Q** What is your opinion about the economy of your city and future spending power post-COVID-19?

Consumer sentiment towards economy after Covid-19



Potential impact from disposable income shrinkage and unemployment are not fully reflected at this stage; we will keep tracking consumer sentiment for future development

Source: Consumer survey (N=981); Bain analysis

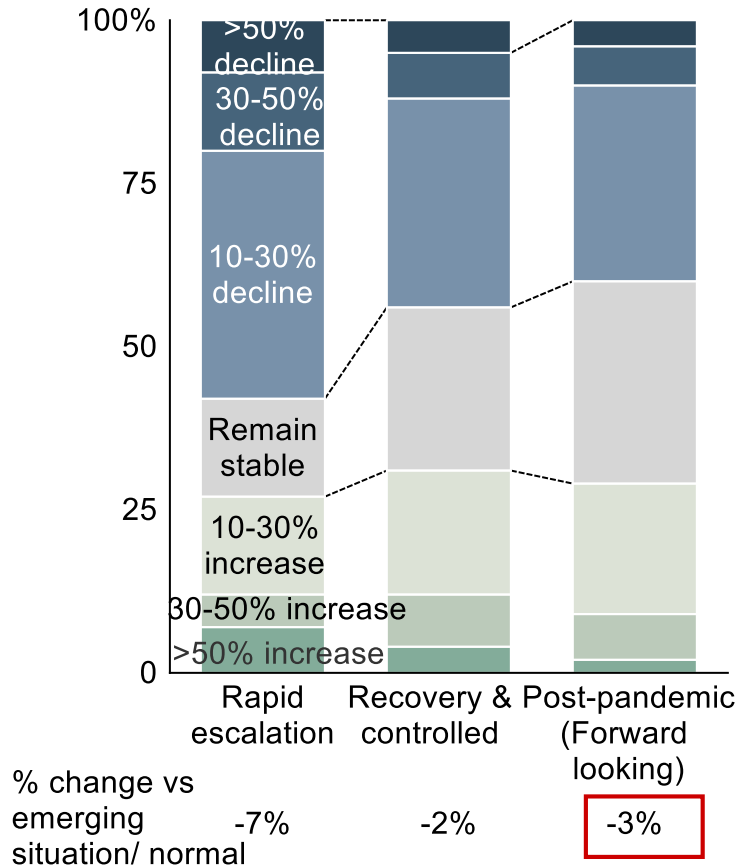
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# Lower income groups could be more vulnerable and reported to be more pessimistic about spending post crisis

## SPENDING

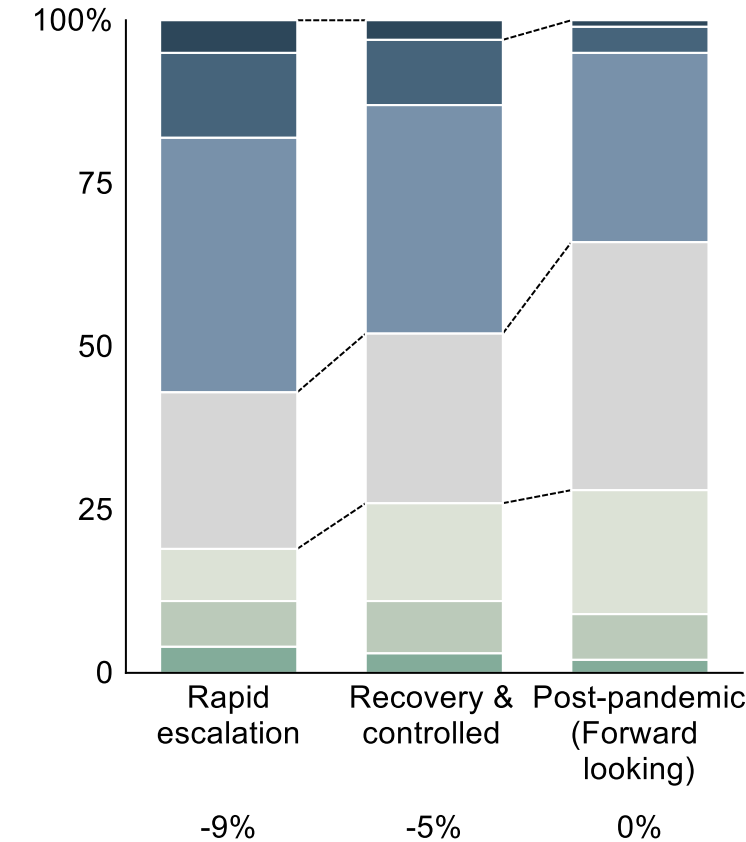
### Monthly income <7,000 RMB

Consumer spending change in various stages of Covid-19



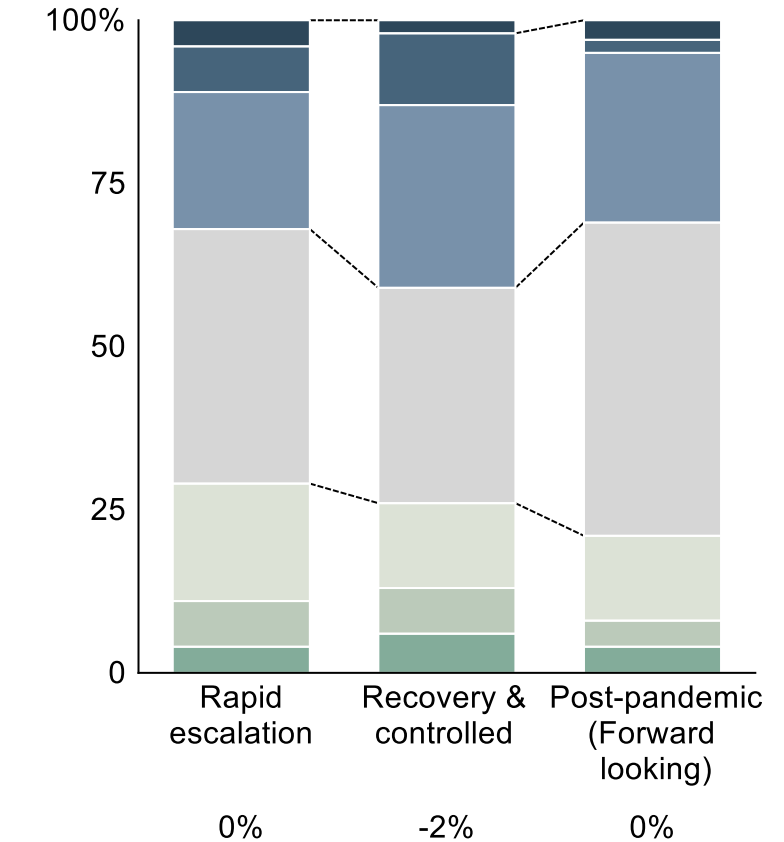
### Monthly income 7,001-20,000 RMB

Consumer spending change in various stages of Covid-19



### Monthly income >20,000 RMB

Consumer spending change in various stages of Covid-19



Source: Consumer survey (N=981); Bain analysis



# Leading offline grocery chain example: Sales spiked in February, while gradually stabilizing since March

SPENDING

OFFLINE



Feb



Mar

**+22%**

**Growth** during February outbreak period

**+10%**

**Traffic increase**, with higher shopper frequency and basket value

**+0-10%**

**Limited YoY growth**/slow down vs. Feb, especially for stock up categories

## HIGHLIGHT

**Supermarket outperform** during pandemic period due to



**Limited restaurant** and delivery service available especially during early February



Most wet market, mom and pop shop **closed down**



**Longer** home staying hours/**leisure time** to cook

**Initial surge on short-term stock-up items and daily essentials**



Meat **200%+**



Frozen food **150%+**

**Sales gradually return to normal level/stable growth** because of



**Positive** to pandemic development, feel **no need** to continue **stock up**



More **alternative choices** available as restaurant, stores etc. re-open



**Prefer dining/going out** etc. as **compensation** for long indoor time

# Leading QSR chain example: Sales have recovered in March vs. February thanks to restaurant re-opening of stores, although same store not back to normal yet

SPENDING

OFFLINE



% of stores open

65%  95%

in Feb

in Mar

Peak closure of 35% in Feb.  
~10%-20% of the open stores only provide delivery and takeaway service, and some stores still have shortened operating hours

95% of stores are now either partially or fully open  
Traffic at open stores is recovering slowly

SSSG

-45%  -20%

in Feb

in Mar

SSSG ~40%-50% drop during CNY

SSSG is down ~20% in recent days

## HIGHLIGHT

**SSSG recovery pace much quicker** than industry expectation, thanks to the **strong growth of delivery** and corporate catering business



**Delivery** % of sales doubled since the virus outbreak when people are required to stay at home



Offer contactless pick-up and **corporate catering services** since 13<sup>th</sup> Feb. to capture the growing corporate needs during pandemic period



**Inventory downward** management



**Dynamic scheduling** of store staff

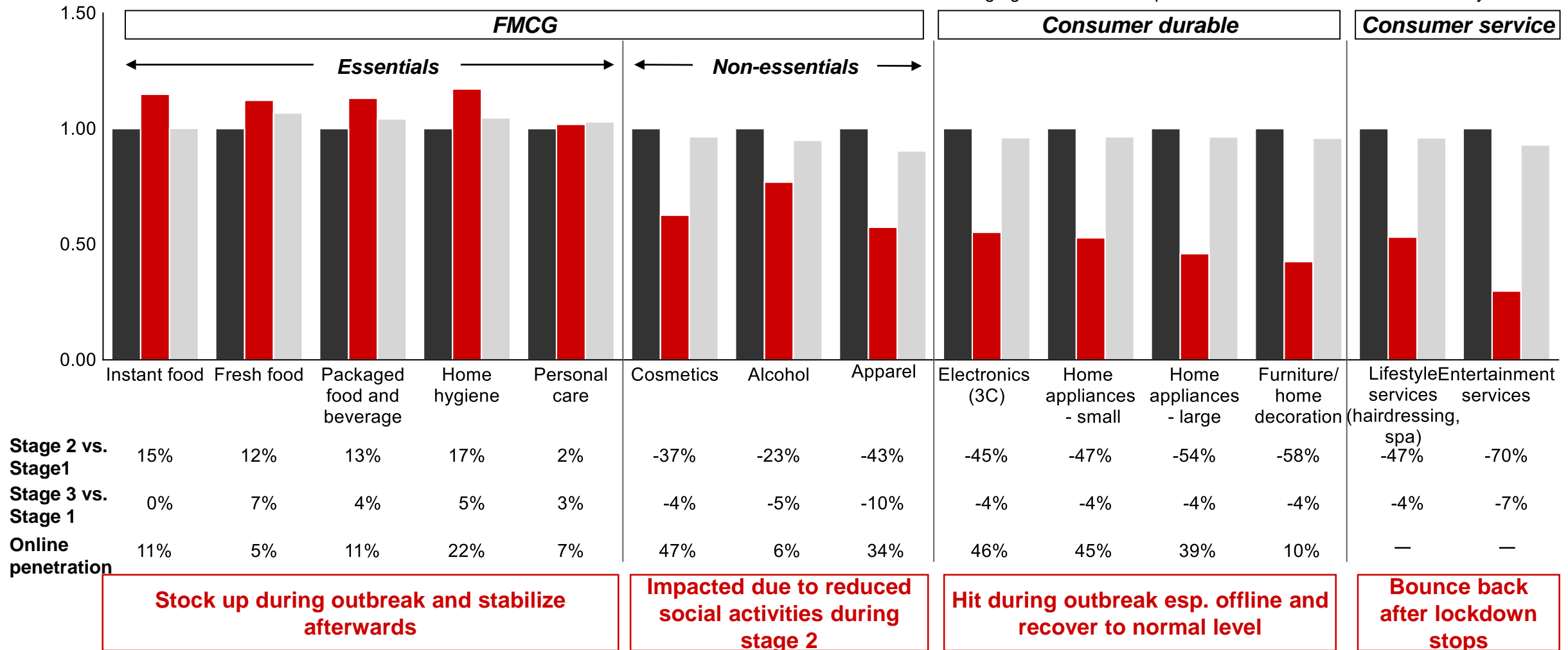
# Daily essentials have seen a short-term spike and stabilizing, while non-essentials, durables and offline services declined significantly but see early signs of recovery

## SPENDING

/ BASED ON CONSUMER SURVEY

Consumer spending change in different product categories across various stages of COVID-19 (indexed to Emerging situation)

■ Emerging situation ■ Rapid escalation ■ Controlled & recovery



Source: Consumer survey (N=981); Bain – Kantar Shopper Report; Euromonitor; Bain analysis

# Online sales across FMCG and durable categories has seen recovery since virus outbreak

SPENDING

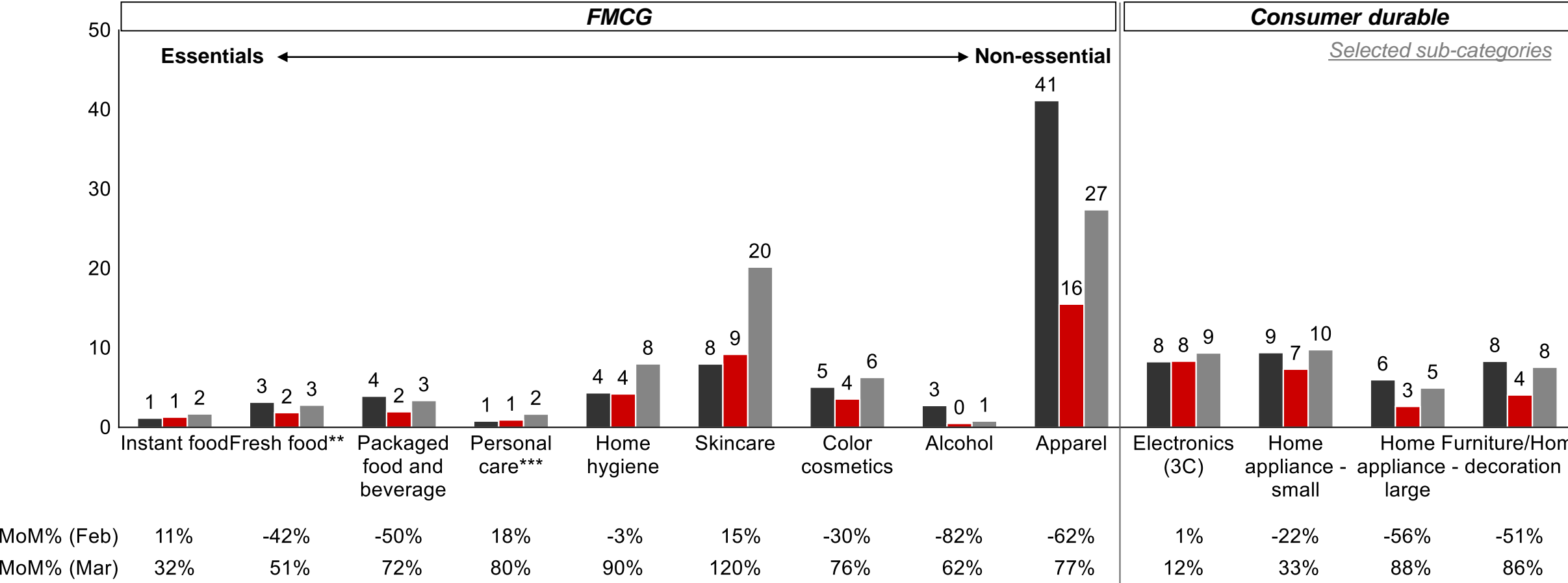
ONLINE FMCG & DURABLE

/ ALI-PLATFORM SALES

March sales largely driven by strong promotion from Ali during 8<sup>th</sup> Mar period, future trajectory is still uncertain, we will keep monitoring with latest data

2020 Ali GMV by month (B RMB)

Jan Feb Mar\*



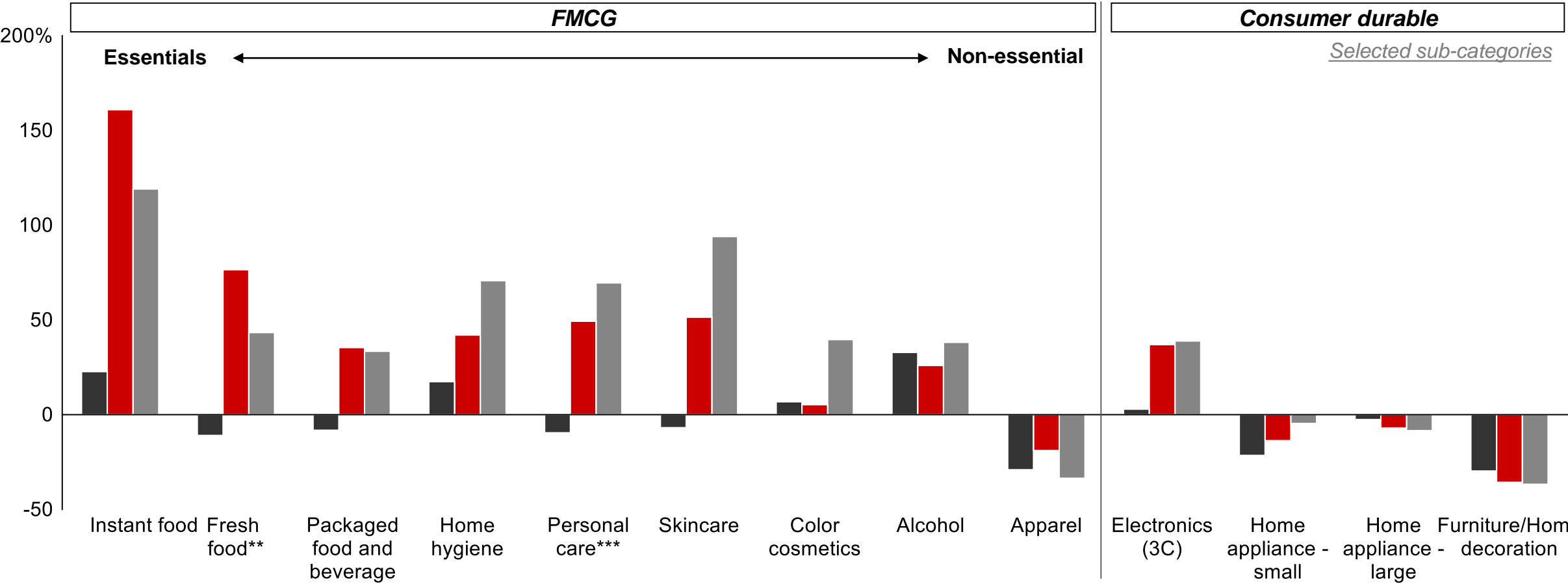
Note: \*March data use estimated full month based on actual Mar.1 to 16; \*\*Hema data, slow growth rate in Feb due to delivery labor constraint; \*\*\* Include oral care and body care  
Source: Taoshuju; Bain analysis

# Compared with same period last year, most FMCG categories have maintained strong growth momentum online

2020 vs. 2019 Ali GMV growth by month

March sales largely driven by strong promotion from Ali during 8<sup>th</sup> Mar period, future trajectory is still uncertain, we will keep monitoring with latest data

■ Jan ■ Feb ■ Mar\*

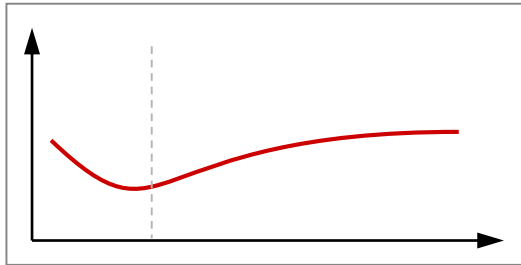


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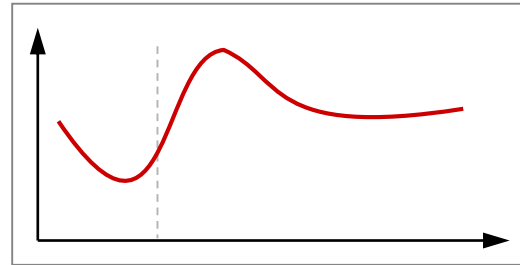


# Recovery will vary by sectors in different patterns (validated by early observations of consumer behavior and data)

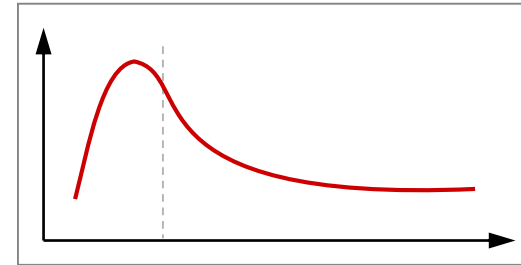
**1** Hit in short-term,  
recover in long-term



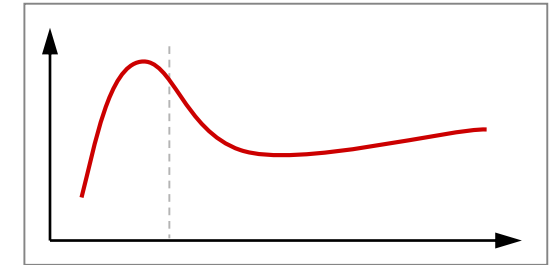
**2** Hit in short-term,  
bounce back or grow  
faster in long-term



**3** Spiked in short-term,  
stabilize in long-term



**4** Spiked in short-term,  
keep growth  
momentum in long-term



## Consumer behavioral change

- **Significant drop in time allocation on outdoor activities** during the outbreak, and gradually picked up in recovery stage
- **Offline traffic sees early sign of recovery recently** but not yet back to normal level
- Consumer spending on **non-essential categories** have **dropped significantly during the outbreak** period and have **bounced back since March**
- Particularly for online channels, **GMV picked up from Feb to Mar** and growth momentum still strong vs. 2019
- Consumer spending on **necessity categories have surged** during outbreak period
- **No structural change on consumer behavior**, will come back to normal in longer-term
- **At-home consumption occasions have surged** during outbreak period, driven by mobility limitation
- Time allocation **dropped but still higher than normal time** after entering recovery and controlled period, indicating a longer term behavioral shift

## Example industries

- Restaurant & food service
- Entertainment & education (offline)
- Traditional retail and commercial real estate
- Apparel & beauty products
- Alcoholic drinks
- Household appliances
- Offline grocery
- Household goods
- Packaged food
- Digital healthcare
- Distance learning
- Online entertainment
- E-commerce

# Thank you



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