

The Impact of COVID-19 on Digital Commerce in China

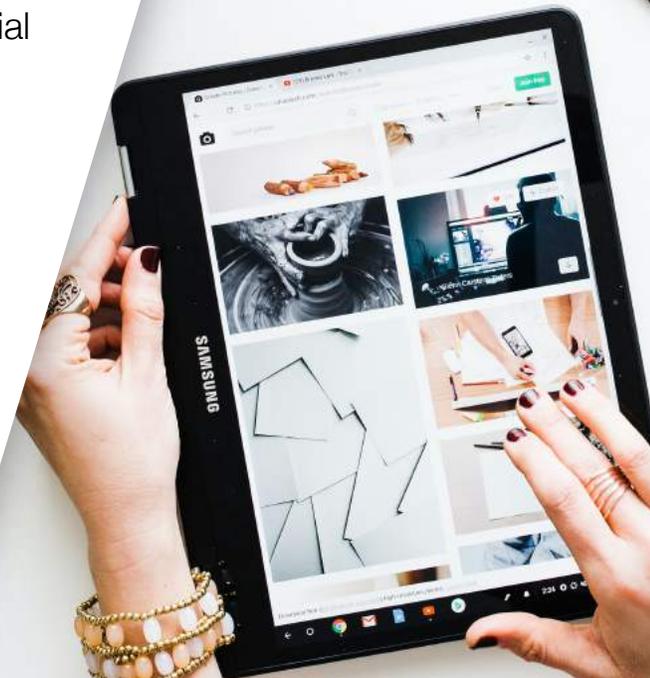


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Key Observations

DIGITAL COMMERCE IN CHINA TODAY

- **eCommerce penetration and usage has grown significantly during COVID-19** – the initial lockdown and social distancing provides limited alternatives as many consumers still see the risk in public shopping malls and other brick-and-mortar retailers.
- **eCommerce users have a broadened demographic** – there's a noticeable rise in elderly shoppers and those based in lower-tier cities, providing more opportunities for brands to reach this previously fragmented and hard-to-reach market.
- **Online retail is becoming increasingly more diverse** – the sector is evolving from just from Alibaba-JD-platform dominance to include social commerce, bringing forth a variety of social media platforms from WeChat to live-streaming.
- **New product categories have emerged due to changing consumer behaviour** – the crisis has impacted people's attitudes towards food, fitness, education, health and general wellbeing, among others.
- **New retail continues to be the best performing channel** – channels that have integrated new retail components such as seamless delivery and smart technology are likely to succeed more than ever as a result of COVID-19.
- **Cross-border and daigou trade are severely impacted** – due to disruptions in supply chain and limited connections between China and Australia, trading will largely depend on multilateralism.



eCommerce Penetration

HOME BODY ECONOMY

- While some sectors of the economy struggled for survival amidst COVID-19, eCommerce was faced with massive demand.
- While overall retail sales dropped 20.5%, China's **online retail sales grew by 3%** to 1.1 trillion RMB in the first two months of 2020 – slower than last year's 19.5% YOY rise, but still respectable given the circumstances
- eCommerce has driven China's **homebody economy** throughout the epidemic, which in turn has given rise to new categories such as **work from home, food, fitness, education and health.**
- Brands would be smart to **explore these trends** in their consumer engagement strategies moving forward.

TAKEAWAYS

- Chinese consumers are likely to be even more amenable to **online shopping** after the outbreak.
- According to a Nielsen survey, 89% of the respondents say they will be **more willing to buy daily necessities and fresh products** online once the pandemic is over.
- The crisis has impacted consumer attitudes to **product safety, the environment, and healthy lifestyles.**



IKEA x TMALL

- IKEA started selling on Chinese eCommerce platform Tmall, marking **the first time the retailer has sold through a third party** in its 77-year history.
- The move coincided with temporary store closures across China during the peak of the pandemic.
- IKEA is hoping to reach more shoppers in a market where consumers favour multi-brand online platforms.
- Tmall's store offers around 3,800 of IKEA's 9,500 products as well as services such as delivery and assembly.

Broader Demographics

TOMORROW'S GROWTH ENGINE

- COVID-19 outbreak has seen a dramatic shift with **more consumers over 30** purchasing online than ever before.
- Similarly, sales share by **tier-3 and lower city** consumers has increased to 70% from 57%.
- Having a growing access to online retailers, **lower-income** shoppers are increasingly adopting eCommerce (graph below).



- Although rural China lacks infrastructure and logistics support, which is intensified by the lower population density, 2020 should become the deciding year in the battle for its consumers.
- Because elderly turned to mobile apps for food delivery and entertainment during the epidemic, eCommerce players like Miss Fresh are planning to roll out **senior-friendly services and product categories**.
- Meituan, one of the China's largest delivery platforms, reported orders for medication related to chronic diseases including high blood pressure, diabetes, and arthritis increased by over **200%** during Spring Festival.

TAKEAWAYS

- Chinese consumers are in pursuit of **richer experiences** and **quality of life**.
- Older and lower-tier city consumers are increasingly shopping online **diversifying the overall pool of online consumers** and reach of eCommerce.
- **Middle-income earners** have also caused an acceleration of the trajectory towards digital sales.

Broader Demographics

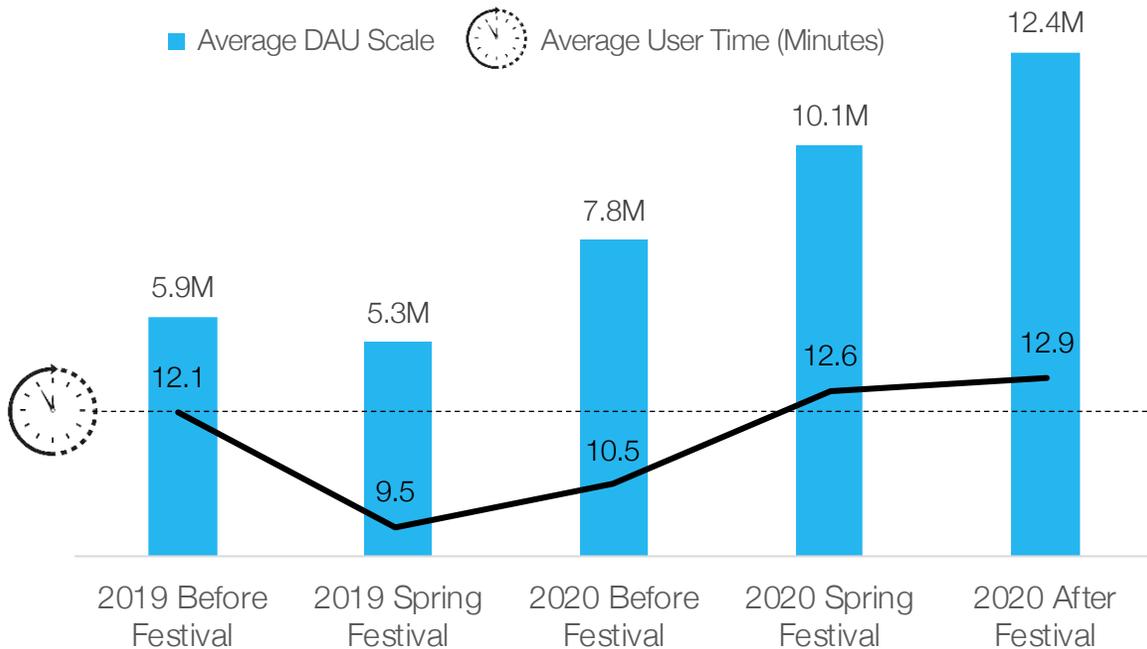
FRESH FOOD

From the main online shopping categories, **fresh food** has clearly been the standout winner. During this year's Spring Festival, daily usage time for purchasing grew 56.2% above normal. Two weeks later it was up 96.4% to 12.4 million minutes.

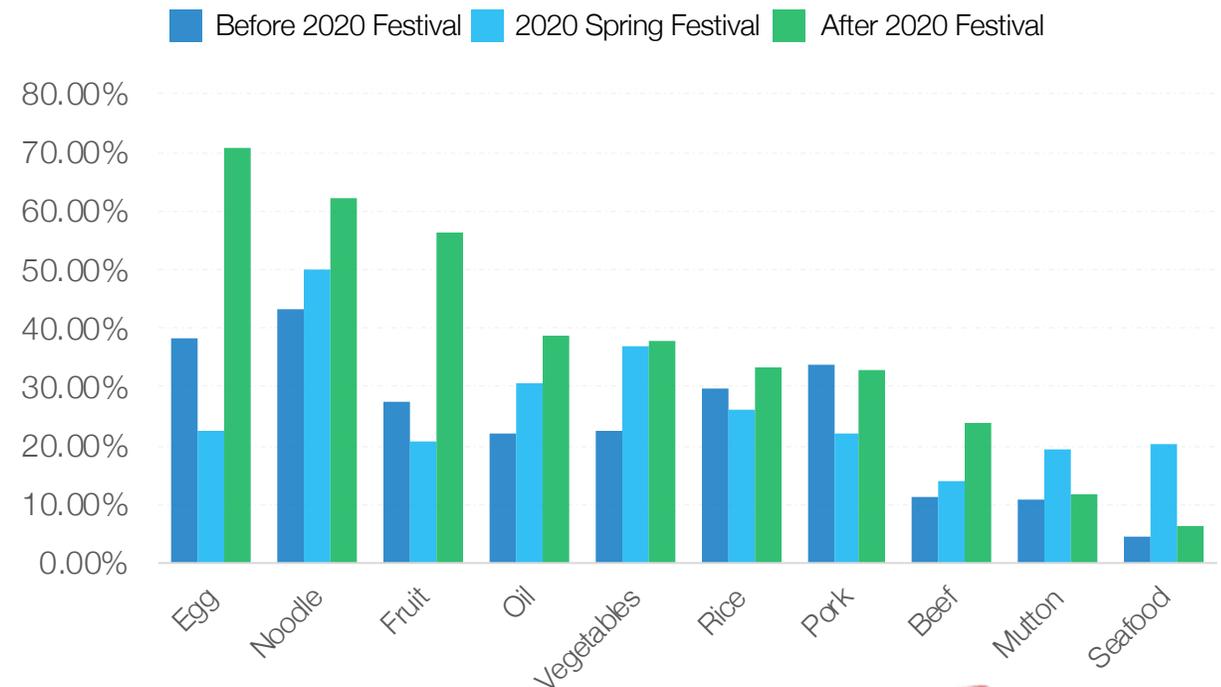
People over 40 years old have ordered fresh food online much more than normal due to restrictions in movement. In fact, middle-aged users and above **grew 237% on the Miss Fresh** platform. As many as 90% of over-40s were estimated to place online orders for fresh food with help from their children.

The fastest growing search keywords on fresh produce platforms were **common staples** such as eggs and fruit – with searches doubling. Instant noodles also performed well according to QuestMobile.

2019-2020 Fresh Food eCommerce User Behaviour



Users Searching Behaviour on Fresh eCommerce App



Diversification

SOCIAL COMMERCE

- Successful brands now use **live-streaming**, conduct **online events** and leverage **social tools to pivot products and services**.
- WeChat Mini Programs are seeing more e-commerce and retail-friendly features to enhance **customer engagement**.
- In 2019, the usage of MPs grew by 160% to ¥800 million, which marks half of JD's annual sales.
- WeChat can leverage its copious amounts of **user data**, its B2C ecosystem, as well as its advertising operation to create an online marketplace.
- Douyin, which grew 102% amidst coronavirus, has evolved into a sophisticated social commerce platform providing considerable opportunities as both a **marketing and sales channel**.

TAKEAWAYS

- Social commerce is seen as the next key area for growth, meaning that business **must prepare their grassroots networks** now for a country setting the wheels back in motion.
- Traditional retail models are challenged by KOLs, live-streaming, social activations, content sharing and referral selling. **Covering these channels will be key.**
- Young consumers, particularly those born after the 1990s, are the key consumer group shopping on social commerce platforms.

When China went into COVID-19 lockdown, the gym industry was one of the hardest hit. However, the outbreak provided an opportunity for **Les Mills International** to accelerate their digital initiatives. The fitness brand launched an **online training program**, created a **WeChat Mini Program** and offered **paid live-streaming classes**, which marks Les Mills' first foray into the direct to consumer (D2C) model.

LES MILLS



Les Mills provides us a valuable lesson for not just for succeeding in times of crisis, but also taking time to **explore other marketing, sales and training channels**.

Gyms are now starting to open again in China, although it will be some time before they are back to the crowded hives of activity that they were before the outbreak.

Nevertheless, Les Mills is likely to emerge stronger than it was before, with **complementary digital channels, more profitable systems and new avenues to grow their revenue and customer-base**.

Diversification

SOCIAL COMMERCE

Online sales mediums are becoming increasingly diverse and creative.

Brands are creating occasions beyond the constraints of time and location using **social media** – WeChat groups, Douyin, live-streaming, D2C, MLM – allowing them to lower operational costs and having a greater ownership over customer data.

TAKEAWAYS

- Physical retailers are **opting for digital channels** to counter the drop in brick-and-mortar sales.
- Businesses are also shifting their offline marketing and sales investment to online.
- **eCommerce innovation** across all categories including will continue to expand, meaning that business will be required to offer **new products, ample online content** etc.

1 WeChat Group



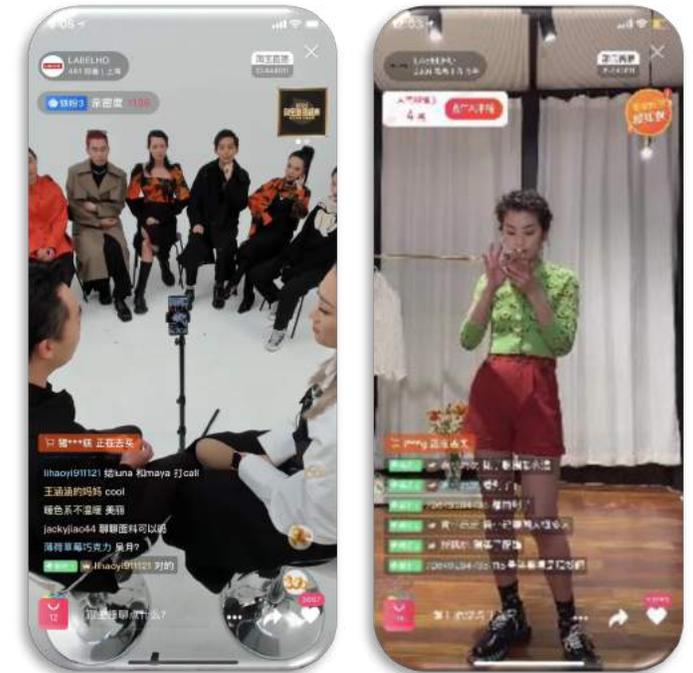
2 Mini-program



3 Broadcasting



4 Contactless delivery



- Fashion brands stepped up digital strategies to facilitate business during the epidemic.
- At **Labelhood**, a showcasing platform for Chinese designers, in-store appointments were replaced by one-on-one video calls or public **live-streaming**.
- According to Taobao Live, the number of live-streaming rooms launched by retailers on the platform increased **719%** month-on-month in February. Audiences increased by 35%.

New Retail

ADAPTING TO NEW REALITIES

- Post-COVID-19, the most successful retailers are increasingly the ones taking control of all their customer journey **at all touchpoints**.
- New retail, a seamless shopping experience merging offline and online commerce, was in fact one of the **best performing channels** during the coronavirus lockdown.
- Consumers no longer think in terms of separate purchasing mediums but **use them concurrently** for various purposes such as product research, comparison and delivery.



Hema, a ‘new retail’ supermarket chain owned by **Alibaba**, quickly took action to combat COVID-19 and help those most affected. The company partnered with dozens of restaurant chains to **deploy their sidelined employees, negotiated favorable supply terms** with business partners and devised **contactless delivery** solutions. Hema set clear initiatives right in the beginning of the crisis, which rewarded the brand with more loyalty than ever before. Queensland entrepreneurs would be wise to make similar pledges to their Chinese customers – both B2B and B2C – if they can fulfil them.

Hema recorded a strong growth (**+127.5% VS. YOY**) during COVID-19 thanks to incorporating the following new retail pillars:

- **Home deliveries.** Consumers could opt for fast and easy delivery for their daily foods.
- **Profitability.** An average Hema store makes 3-4 times more revenue than a normal supermarket.
- **Smart logistics.** Hema was able to stock essential fresh foods and daily necessities when availability was scarce.



TAKEAWAYS

- Consumers continue to **blur the boundaries between online and physical channels**.
- Brick-and-mortar retailers that have **integrated new retail components are likely to succeed more than ever** as a result of COVID-19.
- Traditional retailers may struggle with limited foot traffic and cash flow.
- In 2019, online accounted for **36.6% of all retail sales in China versus around 10% in Australia**.

Daigou and Cross-Border Ecommerce

CONCERNS AND REALITIES

- **Current consumer concerns** regarding cross-border trade are mainly about logistics and becoming exposed to the virus via overseas goods.
- While most categories have declined, the **demand for health products such as vitamins and mom & baby remains strong.**
- Both cross border ecommerce and daigou trade have been impacted through slowing international supply chains and flight groundings.
- Chinese government has promised to bolster financing and cash liquidity for companies in CBT economic zones, helping the sector back on its feet.

TAKEAWAYS

- While China's appetite for popular Australian cross border trade such as health vitamins and mum & baby products is unlikely to slow down, the effects of COVID-19 may continue for an uncertain period.
- With less Chinese travelling to and studying in Australia and sharing their experiences with Australian products, brands will need to compensate the lack of exposure through **increased marketing efforts in China.**
- Alternative ways to continue trading are likely to emerge. For example, foreign "farm to table" supply chains could be the next big entrant.

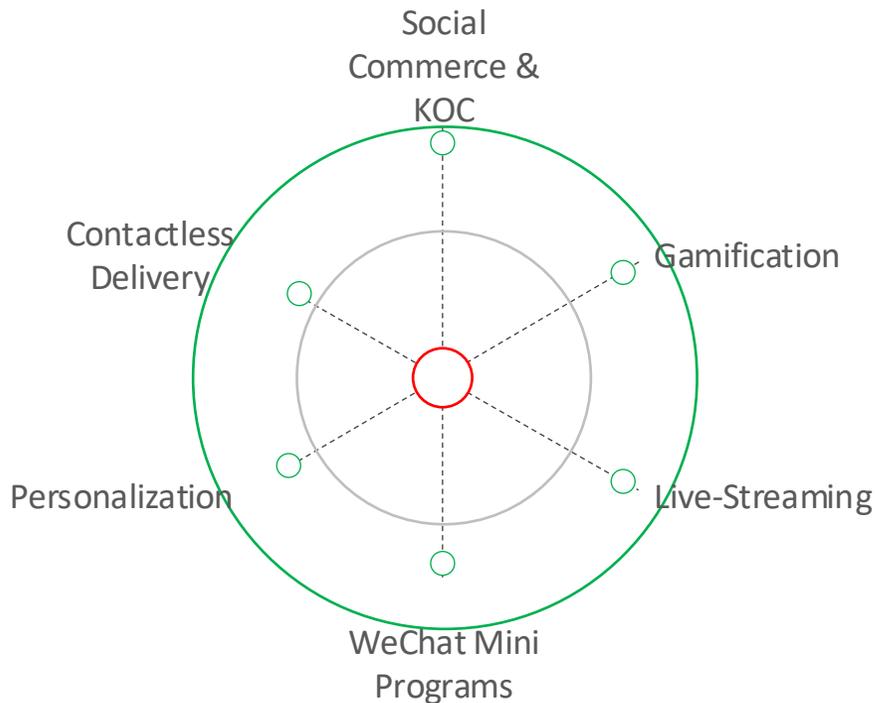
- Non-institutionalized **daigou** (purchasing agent) economy has been further impacted by the pandemic.
- Travel restrictions and compulsory quarantine periods have made it difficult for Chinese students and visitors to buy the goods overseas and then ship them back to clients.
- "Official" daigou platforms and larger bulk export customers are reportedly less volatile, but many have still been impacted.



Australia's reputation for producing clean and green food will help sales in the coming months.

Trends for 2020

KEYWORD ANALYSIS



KEYWORD(S)	INTERPRETATION	TAKEAWAY
Social Commerce & Key Opinion Consumers (KOC)	<ul style="list-style-type: none"> • Social commerce and KOC enjoyed fast development over the past quarter. • Consumers switched their consumption capability largely from offline entities to social media platforms, where KOCs have a large say in consumers' decisions. 	Queensland businesses can build online/offline brand consultants, ambassadors, advisors as KOCs to speak for brands, and potentially use KOCs to offer personalized service for customers. e.g. personalized advice on which products to buy.
Gamification	<ul style="list-style-type: none"> • When talking about homebody economy, people turned to gamification easily. Playing games appears to be the best way to kill time at home. • Gamification, integrated with WeChat Mini Program, QR codes and membership promotions, is welcomed by customers. 	It is possible to gamify user experience throughout the entire journey. For example, when placing an order, consumers can get discounts or awards by playing a mini game,
Personalization	<ul style="list-style-type: none"> • In China, tech innovations in AI, VR, data collection and analytics enable brands to personalize engagement. • Personalization increases customer satisfaction, especially among millennials, and the likelihood of repeat visits. 	In China, each province has a different set of consumer behaviour and preferences which acquires a certain level of personalized services and interactions.
Contactless Delivery	<ul style="list-style-type: none"> • Many businesses are turning to contactless delivery to help protect their customers and employees. • In China, delivery within an hour, or free delivery are necessities now. • Some brands offer subscription models to deliver products to consumers on a weekly/monthly/quarterly basis. 	Chinese eCommerce and delivery/courier companies are fast embracing contactless delivery to meet rising demand from health-conscious Chinese consumers.

Key Takeaways

PREPARING FOR A NEW NORMAL

1

HOMEBOY ECONOMY

People do more online browsing and purchasing given extensive quarantine and social distancing measures. Online sales of groceries, fresh produce and consumer essentials are likely to surge and set new habits.

2

DEMOGRAPHIC SHIFT

Older and lower-tier city consumers are increasingly shopping online, diversifying the overall pool of online consumers and reach of eCommerce.

3

SOCIAL COMMERCE

Buying and selling on social media platforms has become commonplace, meaning that brands must react fast to a rise in digital engagement.

4

WECHAT MINI PROGRAMS

WeChat can leverage its copious amounts of user data, its B2C ecosystem, as well as its advertising operation to create an online marketplace.

5

OMNICHANNEL EXPERIENCE

In China, stores have extended from online-only or offline-only into a seamless omnichannel consumer experience that's fully integrated.

6

RISE OF LIVE-STREAMING

Brands use live-streaming to bring offline activities online. With people relying heavily on social media for connection during these emotional times, internet audiences will amass more power than ever.

7

CONTACTLESS DELIVERY

Accelerated delivery platforms offer services with minimum human contact, re-shaping consumption trends across categories.

Advice for Brands Moving Forward

BE SENSITIVE

For the time being, brands should be even more conscious of their tone and behaviour with communications. Businesses will not win over the situation if they appear opportunistic or crass.

Although the virus outbreak has cooled down in China, consumer needs and mindsets developed over this period are worth looking at as parts of the long-term business plan. It's vital for brands to build the bridge between the needs of the customer and their offering.

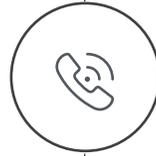
WHAT IS MOST IMPORTANT

mental health
survival
home office
treating the planet better
slow living
loneliness
anxiety
boredom
tech as saviour
home improvement



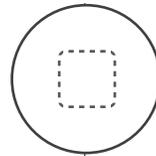
1. Know Your Role

Coming off as too salesy or opportunistic can result in huge consumer backlash online that could ruin a brands exposure. Understanding a brands role in what they can provide in these trying times is essential.



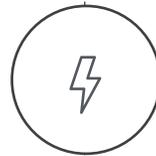
2. Listen to Consumers

During these uncertain times consumers needs tend to change frequently which presents an opportunity for brands to showcase their flexibility to adjust to situations and provide to their core audience.



3. Transparency and Authenticity

Transparency and authenticity will only become more important as consumers try to avoid any potential risks to their health.



4. Act Fast

As the situation remains relatively unclear, it is important for brands to keep pace with the constant changes. Even when everything completely goes back to normal.



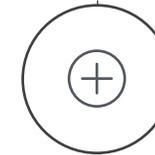
5. Be Available

Shown in the virus outbreak, it is important for brands to keep their supply consistency.



6. Educate Consumers

Be proactive in educating consumers rather than responsive. Anticipating situations and new needs can provide a significant edge.



7. Invent New Traditions

The outbreak essentially has obsoleted some businesses that failed to keep up with changes. On the other hand, more opportunities thus are open.



LET'S CHAT



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