Assessing the impact: A cross industry view on the impact of COVID in China
Introduction

It’s an unusual Spring Festival with people fighting an unusual battle.

As the epidemic caused by the novel coronavirus pneumonia (NCP) continues to escalate, the situation is full of uncertainty with a tense climate across China. The epidemic is undoubtedly affecting people’s lives and its impact on social economy is felt across all industries.

Kantar’s consulting team have been paying close attention to the market during the epidemic. Using our in-depth market knowledge, cross-category expertise and eyes on the ground, Kantar presents this report, in which the challenges and opportunities that various industries are confronted with are analyzed and assessed for their potential impact. We also explore the potential trends of the industries in the special market environment, with the intention to help enterprises cope with uncertainties, seek stability amid rapid change, and unlock opportunities against this crisis.

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In 2019, the annual GDP growth rate of the Chinese economy was 6.1%; the year-on-year growth rates in the four quarters were 6.4%, 6.2%, 6.0%, and 6.0% respectively, showing a slow decline. 2020 has been identified as an important goal post for China to achieve the goal of doubling its total GDP from 2010. Considering the impacts of NCP epidemic on the economy in Q1, the year-round macroeconomic target for 2020 is now under a significant challenge.

Under the epidemic, there are four possible economic scenarios that businesses need to consider:

**Scenario 1: “Baseline”** 50% likely
The epidemic turns to be under control at the end of Q1, and economic growth slows down in Q1; but as the epidemic influence decreases, the economy looks to rebound. The year-round GDP growth rate in 2020 is expected to reach ~5.4%

**Scenario 2: “Optimistic”** 25% likely
The epidemic is effectively controlled by the end of February, and the year-round GDP growth rate is ~5.7%

**Scenario 3: “Pessimistic”** 20% likely
The epidemic continues until the end of Q2, and the year-round GDP growth rate falls to 4.5%

**Scenario 4: “Nightmare”** 5% likely
The 2020 epidemic fails to be effectively controlled, and the year-round GDP growth turns to be less than 4.5%; a real worst case scenario for the market.

In terms of industries, the tertiary industry has been most affected by the epidemic. The tertiary industry leads the Chinese economy, its GDP contribution accounting for as much as 54% in 2019. The highly contagious NCP epidemic has significantly reduced people’s outside movements, with transportation, tourism, catering, retail and entertainment industries expected to bear the brunt. The growth rate of the tertiary industry is expected to slow dramatically in Q1.

The impact of the epidemic on the secondary industry should not be underestimated either. Due to the need for epidemic prevention and control, measures adopted in various regions, including delayed resumption of work and traffic control. These have led to delays in working population mobility and logistics transportation. As such, manufacturing enterprises may face difficulties in employment and raw materials shipment in the short run, affecting normal production of some enterprises.

As for the primary industry, the impact is expected to be relatively small, and it only accounts for a small part of the overall GDP, ~7%. Exports of some Chinese agricultural goods, however, may still be affected in the short term.

Looking at similar situations, SARS in 2003 to H1N1 in 2009, the economic impact of the epidemic has been historically short-term as long as it the control is obtained. After the epidemic, a large amount of depressed and lagging consumption and investment will be released, and the economy will thus gradually recover.

We believe the NCP epidemic will affect China’s short-term economic trends, but shall not reverse the long-term growth of China’s economy.
Retailing impact

Due to the epidemic, department stores and shopping centers in China have closed or reduced their business hours. To offset some of the losses, 77 commercial real estate companies in China announced a reduction or exemption in commercial rents as of February 3. While this may help ease cash flow problems, there are still significant other fixed expenses that will expose difficulties for continued operation under the epidemic. Additionally, as this is a period of significantly increased sales, the losses of this peak period will be felt throughout the year.

However, department stores with established online platforms have seen a smaller impact than traditional ones.

Suning Plazas across the country has reacted quickly by changing its direction, driving consumers online to the Suning Plaza APP and applets. Suning Plazas in different cities, have set up their own marketing community where consumers may join by scanning QR codes to buy products and services at home through online order placing and logistics distribution. Rainbow Department Store has launched a “door-to-door” service, enabling consumers to place orders with free shipping by SF express by means of the “Rainbow” applet or the APP’s counter delivery service.

In the short term, the decrease of customers as a result of the epidemic will affect the business of brick-and-mortar department stores and shopping centers to varying degrees. With Moncler, the luxury fashion retailer, recently citing a 80% reduction in traffic when compared to last year after it was forced to close 14 stores (1/3 of their total China stores) nationwide.

However, in the long run, the acceleration of digital transformation, strengthening of online promotions, application of new digital tools and technologies, developing world leading online/offline integration, and full utilization of membership data, will help business protect against the impact of such crises.

The importance of online platforms such as online shopping malls, official WeChat accounts, WeChat applets will be emphasized for department stores or shopping centers throughout the year and the future as the economy recovers. Companies will shift these aspects to be their core strategy to achieve high-value and high-quality member and sales growth through member relationship management, optimum utilization of data, personalized products and customization of promoting programs. Experience-oriented consumption will continue to be the main approach of offline consumption, and in normal times the important of tangible offline brand experiences are not projected to diminish. However, it is also very important for the industry to find out how to create an immersive online shopping experience by taking advantage of new technologies.
Even though malls/supermarkets have shouldered the task of ensuring people’s daily supplies, there are still great challenges under these adverse conditions.

To begin with, profits have declined due to rising costs. With suppliers increasing the prices of popular goods such as fresh food and with epidemic prevention items seeing significant variance in line with their shortage of supply, a vast majority of supermarkets are still following a principle of “stable supply with no price rise”. This in part reflects a high sense of social responsibility which is admirable considering the circumstances.

Additionally, the home rush during the Spring Festival typically leads to a shortage of staff. With the staff shortage compounded by increased demand for workers to fulfill extra work such as deep disinfection and sterilization. To alleviate the problem of staff shortage, Yonghui, Greenland and other supermarkets are “renting” employees from catering service providers who face the inverse problem of staff over-supply after their businesses have been temporarily shut down.

Lastly, there is a substantial backlog of Spring Festival goods (such as tobacco and wine) which have not been consumed as usual due to behavioral changes associated with the epidemic. In the short term this causes significant pressure on capital turnover, and in the long run over stock issues may be seen in certain categories within the retailers.

However, crisis breeds opportunity. During this period, we have seen that offline supermarkets are able to quickly fill supply gaps, taking the opportunity to alleviate the impact of customer decrease brought about by a rise in e-commerce adoption. The stable supply for offline supermarkets has shown a resilience that has not been reflected in the e-commerce channels, which is facing its own issues, resulting in slow logistics. This has brought a large number of customers back into the offline buying habit, and the challenge will be to keep them in that habit after the epidemic subsides.

Wal-Mart, RT-mart, Carrefour and other large supermarkets are developing more online channels to push services through their own and third-party apps/applets; small supermarkets are expanding their sales scope by relying on O2O services in the same city, such as Eleme/Meituan / Paatui. The self-service cash collection featuring contactless transaction represents an opportunity to develop new checkout habits, which in the long run can represent cost saving opportunities for retailers, by achieving the full automation of cash register.

In a word, the performance of the malls/supermarkets under the epidemic is remarkable, and they have improved their brand reputation and public favor in the crisis. The long term challenge is customer retention, instead of them being seen as a crisis solution.

Even in the face of the epidemic, most of the chain convenience stores remain open. For example, 7-Eleven, Bee and other convenience stores adhere to “Open 24 Hours” during the Spring Festival; those near living areas in cities, have taken advantage of their geographical position and won new business opportunities, while others in close proximity to transportation hubs and commercial areas have closed due to business downturn.

During the epidemic fresh food is an important commodity, with community convenience stores quickly adjusting the commodity structure and increased the supply of fresh food, making it convenient for residents to purchase nearby. For example, Suning Store, backed by Suning Vegetable Market, has become a service hub of communities by enabling online ordering and pickup in stores, that is, users place an order on Suning Store APP before 9 p.m., and pick up what they have ordered at the neighborhood store at 7:00 a.m. the next day, avoiding any contact and linger time.

To address the shortage of distribution manpower, convenience stores have also adopted “online ordering and pickup in stores”. Today convenience stores in Wuhan, Hubei, a hyper epidemic area, for example, are relying on Eleme, using the in store pickup method to reduce personnel contact, with the result being to greatly improve safety and convenience by minimizing human contact.

The efficient performance of convenience stores and their role of as community hubs has raised their standing in consumers’ minds. After the epidemic, it is expected that consumers’ behaviors of shopping in the convenience store nearby the home will be preserved, the emotional ties and convenience store communities formed in the special period will last.

Additionally, we project that the epidemic will serve as a catalyst to the previously present trend of a shift in category structure within convenience store. An increase in the proportion of fresh food, vegetables and instant food compared to previously. There is a strong outlook for the continuation of the prominence of convenience stores.
Data from 2013 Worldpanel, a division of Kantar showed that during the SARS outbreak, the performance of grocery stores and “mom and pop” stores suffered. Affected by this epidemic, quite a number of grocery stores were forced to be closed and many shopkeepers said a large backlog of goods restocked before the Spring Festival, especially milk, pastry and fruit gift boxes with short shelf lives was problematic. This coupled with high store rents as commercial real estate booms, has posed a considerable financial pressure on these thin margin businesses. It is expected that, due to the epidemic, the business of traditional grocery stores will significantly suffer this year.

Due to the closure of villages and blocked roads in some areas, there has been significant disruption in the supply chain for these stores across distributors and wholesalers. The longer these measures stay in place, there is a high risk of inventory of essential items running out, even if the stores intend to keep operating. Internet based purchasing platforms plays an important role, helping small store owners ensure adequate supply of goods while refraining from going outdoors.

With the completion and delivery of Huoshenshan Hospital on February 2nd, the first unmanned supermarket in the epidemic area in China came into being. The supermarket offers 24-hour service with no cashier, where customers complete the whole purchase process by self-service. On the first day of business, it welcomed more than 200 customers.

The idea of unmanned retail was put forward in 2016 and developed rapidly in 2017, with financing of 6.3 billion yuan at its peak. There were more than 200 unmanned stores. However, after only one year, the model was challenged by the market due to the low acceptance of consumers and the lack of appropriate technological implementations. During the epidemic, unmanned supermarkets have had somewhat of a re-emergence, and the future important of unmanned shopping emphasized during a crisis.

Similarly, vending machines had the consumer health advantage of not requiring human contact. The trend toward vending machines has been seen by many FMCG manufacturers before the outbreak. In Japan, there is 1 vending machine for every 25 people on average, and 1 for every 50-60 in the United States. However, in China, there are less than 200,000 vending machines (mainly intelligent machine). Against the large population, the market of vending machines still has great growth potential.

According to the data provided by Alibaba LST, more than 3,000 stores on the LST platform in Wuhan remain open to provide services for the community. LST has also launched an emergency plan to timely adjust commodity structures and ensure the normal operation of stores.

We predict that after the epidemic, shopkeepers will be more used to the contactless one-stop restock through the Internet, leading to an acceleration of the reform of the traditional Chinese retail stores and traditional trade models.

It is believed that the outbreak will result in a rise of the number and frequency of consumers using vending machines. With an increasing number of categories and brands starting to experiment with vending machines, we may also see new consumer behavior being adopted in previously unexplored categories and products within vending. At the beginning of the year, Luckin coffee announced its smart retail strategy, with the launch of unmanned coffee machines “luckin coffee EXPRESS” and unmanned vending machines “luckin popMINI”. After the outbreak, there will be more categories of enterprises to test the feasibility of adopting vending machines as a sales channel.

In the long run, it is highly likely that the two emerging businesses, unmanned stores and vending machines, will be incubated in this crisis, and will see expansion in the use cases of these channels as consumer adoption rates and acceptance towards unmanned retail increases.
Retailing impact

The SARS outbreak in 2003 proved as a catalyst towards the development of e-commerce. In the face of the NCP outbreak this year, e-commerce enterprises have become an important force to support medical materials and residents’ living materials, owing in part to their advanced logistics systems and rapid fulfilment ability.

Jingdong, has provided “no closing during the Spring Festival” service for many years with adequate supply for the holiday. Its strong supply chain integration ability and self-supporting logistics ensured supply to consumers during the epidemic. Jingdong Fresh Goods actively promotes catering brands to develop production of semi-finished products and fast food, and expands new sales channels for catering brands through Jingdong omni-channel sales during the epidemic.

Alibaba has set up a special fund of 1 billion yuan to assist Wuhan in cooperation with Taobao global buyers in overseas markets by direct procurement of medical materials. Taobao offers the service of “buy medicine without going outdoors”, which helps consumers to buy required drugs and epidemic prevention supplies through online consultation, prescription, drug distribution and medical treatment. In nearly 300 cities with 24 hour Tmall supermarkets, consumers can place orders to buy daily necessities and protective equipment.

Due to the epidemic, export-oriented cross-border e-commerce will face significant supply chain pressure, however import-oriented cross-border e-commerce platforms may see rapid growth under the situation of “global goods search” in the face of shortage of necessities.

Due to the urgent shortage of medical supplies in China, many consumers have rushed into the import-oriented e-commerce platforms to search for household cleaning products such as disinfectant, sterilizing washing liquid and hand sanitizer. Previously popular categories such as nutrition and health care products as well as personal cleaning products on overseas shopping platforms are projected to see significant upswings in sales due to the epidemic.

Affected by relevant international and domestic measures, the cross-border travel of Chinese citizen during the epidemic has faced disruption from its usual patterns, which will have significant impact until the curb of the outbreak. This has shifted consumption that may otherwise happen in global markets to cross-border e-commerce, to meet the purchase demand for imported products. We believe that more consumers will go from “accidental use” to re-purchase and then normalization, and the usage habits of cross-border e-commerce and the demand for imported products are expected to step into a new level of growth.

During the epidemic, the Ministry of Commerce encourages cross-border e-commerce to play its social value and motivates merchants with global procurement resources to search for supplies globally. This has been further supported by a relaxation of clearance protocols to promote faster movement of goods. Import-oriented cross-border e-commerce platforms will benefit from incentives such as simplified customs clearance for some time.

To retain the new users and outstanding performance brought by the epidemic, all brands and platforms should pay close attention to the new consumption habits and product demands generated by consumers after the outbreak is over, and continuously meet the needs of domestic consumers to improve the quality of life and safeguard family health through “global purchase” without going outdoors.
A significant growth in O2O businesses such as delivery to home has been seen during the epidemic period, with some O2O platforms seeing a surge in orders during the Spring Festival.

From the new year’s Eve to the ninth day of the lunar new year, the sales on daojia.jd.com increased by 374% compared with that of last year; since the Spring Festival, the mall and supermarket orders on Eleme in Beijing have doubled; from the new year’s Eve to the fourth day of the lunar new year, the turnover of MISSFRESH increased by 321% over the same period last year; dindongmc.com saw an new users acquisition at rates of up to 40,000 per day, and to cope with the special situation of this year, it has also adjusted its product structure, pushing semi-finished food and successfully expanding into new categories. Wu Mart Hypermarket explored innovative product mix and jointly launched “meat and vegetable package” with many outlets, selling out 5,000 combinations quickly on the first day of the launch.

During the epidemic, those catering to B-side services such as restaurants, hotels and corporate canteens have also made flexible adjustments. For example, meicai.cn, previously serving more than 2 million catering businesses, has expanded C-side delivery and opened dishes for restaurants to individual users.

Medical O2O platforms have been performing well during the epidemic. The daily average order size of Dingdang Medicine, a vertical platform of medicine, is 7x-8x than at ordinary times. During the Spring Festival, it made 1.8 million home deliveries to customers; from the New Year’s Eve to the third day of the first lunar month, daojia.jd.com saw an increase of 430% in orders of medical products, and Eleme saw the number of medical takeaway orders in Shanghai increase by 28%.

Compared with the booming mall and supermarket, fresh food and medicine takeaway categories, Eleme and Meituan based on the business of catering takeaway have been affected in Q1 due to a sharp decline of the orders as a result of the closure of a large number of chain catering brands, but after the outbreak, they are bound to recover quickly.

In general, before the epidemic, the “indoor economy” had already spawned a series of O2O business models, as the new evolution of the brick-and-mortar retailing model. It is believed that after the outbreak is over, consumers will be more familiar with O2O shopping, and the categories penetration will increase to an expanded pool of products and services. The O2O platforms with supply chain advantages will gain profits in the medium and long term, by taking this opportunity to seize the share of home business and consumers’ minds. All manufacturers and brands should exploit the situation to increase investment and promotion on O2O platforms to capture opportunity.

More than 140 Forest cabin stores have closed nationwide due to the epidemic, including all those located in Hubei. However, they are still enjoying a strong performance as the shopping guide at home can still do the sales by contacting regular customers via “Dingding+ Shoutao”, or by enabling consumers to place an order via the WeChat applet. In just one day, there were more than 3,000 new members registered on Dingding, a rapid growth, compared with 700-1,000 a day at ordinary times. In this way, Forest cabin ranked second in the country in the sales achieved in Wuhan on February 1st-2nd.

It is believed that after the epidemic is over, social e-commerce and digital shopping guide in stores will be a powerful way for traditional brand enterprises to create a new consumption battlefield, continuously acquire new consumers and enhance customer loyalty.

Community-based WeChat and other forms of group purchase have rapidly risen, much favored by consumers. Many residents have turned to these platforms spontaneously, using WeChat to establish a variety of “green grocery shopping groups”. Relying on suburban vegetable farmers and greengrocers, they implement the “package system”, with exchange of information; convenience stores, small chain supermarkets and other qualified community convenience business service outlets allow the customers to place an order online nearby via the established APP and public account by launching online sales, and enable them to meet the needs of daily necessities without leaving their homes by providing offline delivery.

On other platforms, epidemic materials have been in short supply, however the flexibility of social e-commerce, unlocks the power of a wider network of individuals to find stockpiles to fulfil orders in other geographic locations.

At the same time, “Dingding+ Shoutao” intelligent shopping guide, “WeChat + Applet shopping mall” and other digital shopping guide modes enjoy rapid development.
In 2019, the sales revenue during the Spring Festival accounted for 15.5% of the total revenue of the catering industry. This year, however, an estimated 500 billion yuan is estimated to have been lost due to the epidemic. Many well-known catering companies, including Hai Di Lao and Xibei, have suspended their business operations. Additionally, a large amount of stockpiling by consumers will lead to a food surplus moving forward, compounding the effect on catering, resulting in cash flow difficulties. Xibei, for example has exclaimed that it “can’t hold for more than three months.”

Although physical restaurants have suffered, takeaway orders are soaring. For many catering companies, takeaway orders account for up to 90% of their business. The hot-pot takeaway business has particularly seen fierce growth. For example, Xiao Long Kan sold more than 1,500 orders in 10 days, a 350% increase from the previous month.

Hema, an online and offline supermarket, has seen significant upswing in online orders. To account for this additional capacity, Hema recruited more than 1,500 employees from 30+ suspended restaurants, including Yun Hai Yao, Youth Restaurant, Xibei and Modern China Teashop, to offer support, which has an additional impact of relieving the high labor-cost pressure of the closed restaurants, which have been mandated by the government to ensure continued employment for staff during the epidemic period.

For the ready-to-drink channels, stores that had seen positive development well before the outbreak have been forced to close. Starbucks and Luckin suspended operations in stores of more than half of the country. Milk tea shops, such as HEYTEA and NaiXueCha, chose to take online orders only to avoid direct contact between consumers and shop assistants affecting their growth and profits.

Other companies like KFC, McDonald’s and Pizza Hut have launched innovative delivery models such as “contactless meal taking”, “contactless delivery” and “safe takeaway card” to protect consumers’ health and safety, while most stores continue to operate. This will probably become a new approach to sell fast food in the near future.

It is expected that the consumer flow in catering will pick up slightly after the resumption of work from the Spring Festival, but it is unlikely to return to the normal level in the short term. Additionally, catering companies, especially small and medium-sized catering stores, will face challenges in cash flow and operating conditions. The O2O food delivery business may see an explosive growth in the late stage of the epidemic, and the international chain restaurant brands are less likely to make major adjustments with their long-term development strategy in China. For example, the senior executives at Starbucks and McDonald’s believe the difficult situation is just temporary, and maintain strong confidence in the long-term development of the Chinese market.
This epidemic has had the most obvious impact on the tourism industry. The timing of the epidemic outbreak coincided with the biggest human migration. It is predicted that the direct economic loss during the 2020 Spring Festival is about 500 billion yuan, and the total loss attributed to a downturn in tourism in 2020 is 1.6-1.8 trillion yuan.

The Ministry of Culture and Tourism issued an emergency notice requiring suspension of the operating activities and tourism related products. Many domestic scenic spots have shut down their operations, and travel agencies have suspended group tours. On the account of control of epidemic transmission, over 80 countries have implemented entry control for Chinese citizens. As a result, the number of outbound tourists has significantly decreased, Chinese tourists to Japan, Korea and Thailand having dropped by 40%-50% on a year-on-year basis, and a large number of flights, train tickets and hotel orders have either been canceled or changed.

Most of the online tourism platforms (e.g. Fliggy and Ctrip), travel agencies, airlines and hotels have published the measures for free cancellation and change, and thus need to pay consumers a huge amount of funds within a short time limit, in turn causing significant pressure on cash flow. Multiple online tourism platforms have paid hundreds of millions of Yuan.

The epidemic has had a strong impact on the hotel and Bed & Breakfast (BB) sector. Booking, a hotel booking platform, began to cancel the orders from Chinese tourists since January 30. For example, more than 30,000 BB hotels in Yunnan have temporarily closed. Travel retail has also seen a significant downturn, with multiple duty-free stores shortening their opening hours or suspending operations completely.

The tourism enterprises are undergoing a severe test, and this tough time may still last one to three months. Some individual tourism enterprises have even made preparations for gaining no income within at least half a year.

Despite of serious impacts of the epidemic, we believe that the travel demands of consumers will not disappear. It is predicted that a round of spending spree may appear after the end of the epidemic. For those who have been at home for a long time, they may execute the travel plan that was canceled or delayed previously after the impacts of the epidemic disappear. The travel demand restrained during the epidemic will recover gradually. It is optimistically estimated that this period may appear in July to August, and a peak will appear during the National Day holidays.

Given the cancellation, change, delay and refund of many travel plans during the CNY period, many tourism companies and travel retailers should look to rebound strongly in the summer holiday period and golden week holiday in October. With money in their pockets from cancelled CNY trips, consumer spending could be significantly higher than the average spend during the period.

Large-scale transmission of this epidemic also has posed higher requirements for hotel accommodations, airlines, railways and even public traffic hygiene and medical services etc. Future development of the tourism relies on the cooperation of various industries, as well as its iterative upgrade.

Data source: Ministry of Culture and Tourism, Consular Department of the Ministry of Foreign Affairs.
Industry impact

The medical industry is the front line of fighting the NCP and the main battlefield of the campaign. The epidemic has a profound effect on the medical system, development of medicine, medical care and medical insurance in China. Our latest insights review the key 6 points in respect of the development direction of the post-epidemic medical industry:

Medical care

1. As the demand for medical devices and materials increases, medical institutions have increased their purchase amount and reserves of related products. This will drive the development of the industry and promote the improvement of application standards.

According to the information released by the Ministry of Industry and Information Technology (MIIT) on February 2nd, soaring demand for five categories including medical protection products, disinfection-related products, drugs and medical devices, covering more than 100 varieties, including monitors, respirators, anesthesia machines, ECG machines, CRP, disinfection-related products lines, nebulizers, oximeters, masks, gloves, nasal sprays and other items was seen. Related industries are also expected to notice a short-term boom.

2. The contactless medical service represented by online medical care will see explosive growth.

As of the noon of February 7th, the leading online medical enterprise We Doctor Group received more than 92 million online visits, with more than 1 million online medical consultations. While, Jindong Health received 100,000 daily online visits on average, and AliHealth received nearly 3,000 consultations each hour, helping patients who faced significant difficulties in being able to visit the hospital, resulting in their diagnosis and treatment at home. It is expected that after the epidemic is over, online consultation will be popularized and become a new option for patients.

3. Medicine e-commerce and medicine O2O will become the best choice of instant medicine for consumers.

During the epidemic, jd.com sold 130 million masks in three days, and the daily average order size of Dingdong Medicine Express increased seven to eight times. It is believed that after the epidemic is over, consumers will continue to buy drugs online, pharmaceutical companies will boost the development of online medicine, there will be a richer and more diverse range of medicines available online, and online dispensing business will be increasingly standardized and improved.

4. The medical community will take a bigger role into educating the public to about the medical industry, playing the role of diagnosis and treatment, science popularization and supervision.

Currently, medical communities such as DXY.com have played an active role in this battle. They have effectively alleviated the panic of the public and played a role in shaping of public opinion supervision by real-time broadcast of the epidemic situation, timely refutation of rumors, science popularization and other forms. The have published articles related to the disease with over 100,000 views. DXY.com also teamed up with attending doctors and those at a higher level from Grade A tertiary hospitals to provide free online consultation services for users in Hubei.

5. The use of hierarchical diagnosis and treatment, with grass-roots medical and health institutions playing a prominent role in this epidemic shows the promise of process transformation. After the epidemic, they may become examples of medical process transformation and improve the efficiency of medical resources.

During this epidemic, Wuhan has gradually established the system of community screening, diagnosis and referral, hierarchical diagnosis and treatment, effectively reducing the pressure of designated hospitals, and improving their operation efficiency. The hierarchical diagnosis and treatment process adopted during the epidemic will provide future guidance for the transformation of medical treatment, further promoting the reform of grassroots health institutions, and improving the level of community medical institutions.

6. Commercial medical insurance will see growth along with the rising of the public awareness of suffering.

At the end of the SARS outbreak in 2003, the participation rate of commercial medical insurance increased significantly. With the current NCP outbreak, there is a significantly increasing number of consultations about health insurance. The high-end medical insurance has seen a sharp increase in the sales. Third- and fourth-tier cities have also seen a significant increase in the number of insurance consultations. Because of the NCP outbreak, more young and middle-aged people will pay attention to medical insurance and disease insurance, while their children pay attention to old-age insurance. Insurance will increasingly become a part of family security assets as a result of the NCP outbreak.

As the film Dying to Survive pushed forward the drug import management and medical insurance reform on its own, we have reason and confidence to believe that when we win the battle against the outbreak, there will be a tide of change in China’s medical system, and the whole medical system as well as the subdivisions involved will undergo significant reform for the better.
Chinese consumers contribute more than 30% to the global luxury market, and Chinese local stores also contribute 10% - 20% of the sales of various luxury brands. The Spring Festival is the peak season for Chinese consumers’ overseas travel and luxury consumption. The NCP outbreak may be the biggest “black swan” event faced by the luxury industry in China in recent years.

As soon as the disease broke out, the customers of luxury stores in Hong Kong, Beijing, Shanghai, Guangzhou and Shenzhen and other key cities decreased dramatically. Many luxury brand stores have been closed: 24 of Burberry’s 64 stores in mainland China were closed, and the remaining shortened their business hours, with customer visits down by 80%. Prada’s flagship store in Causeway Bay, Hong Kong, which was due to expire in June has not been renewed but was also closed four months ahead of schedule. Many luxury goods groups such as Richemont and Kering have seen a decline in stock prices since January 17th.

During the SARS outbreak in 2003, the luxury industry index dropped by 5%; but as the SARS outbreak was gradually controlled, the index began to rebound and recovered more than 30% of the losses in November of the same year.

Today, 17 years later, when the dependence of the luxury industry on the Chinese market is significantly stronger, it is expected that the impact of the epidemic, especially under the severe isolation measures taken at home and abroad, on the luxury industry will be more prominent than that of SARS. The double-digit growth of the luxury goods industry in China may be interrupted by the epidemic, which may even have the knock-on effect in stalling the development of the global luxury industry. What’s more, compared with the short-term sales performance, the reshaping of consumer values and the change of consumer mind by the epidemic may be a topic that luxury brands need to further explore after the fact.

There are also opportunities for change in the luxury industry under the epidemic. Different from other categories, luxury goods focus on the ultimate store experience and consumption environment, and their sales largely rely on physical stores. Post-epidemic, the demand for luxury consumption may shift to online, resulting in the sales of luxury e-commerce, cross-border e-commerce luxury zones, self-operated official websites and WeChat malls of luxury brands realizing a significant boost. Luxury brands may also adapt to the trend and readjust their consumer strategies, creating a new consumption experience by providing all-round content, immersive experiences, VR product display, one-to-one exclusive shopping guide, and offline VIP logistics distribution. The epidemic may be a starting point for traditional luxury brands to go online.
Hubei is one of China’s four auto production bases, and Wuhan is one of China’s four passenger vehicle bases, home to Dongfeng Motor Group and half of the world’s top 20 auto parts companies. Due to the strong epidemic prevention and control measures taken in Wuhan, the resumption of work of vehicle manufacturers and parts suppliers after the festival has been delayed repeatedly, which has an obvious short-term impact on the auto industry.

Cui Dongshu, secretary-general of the China Passenger Car Association, said in an interview with the media that the decline in China’s auto market in January-February would be around 25%-30% due to the effect of the epidemic; and according to the executive vice president Chang’an Automobile, if the epidemic is brought under control at the end of the first quarter, the market will gradually recover in April-June, and passenger vehicles are expected to fall by about 5% in sales all year round.

Mass shutdowns have a more pronounced impact on smaller auto parts suppliers not strong enough to withstand the shock. China has about 13,000 parts companies with sales of more than 20 million-yuan, accounting for about 10%. More small and medium-sized parts companies are facing a series of pressures, such as the decrease of purchase demand of domestic and foreign auto companies, and the funding tension, making the situation more urgent.

More importantly, China’s auto market creates significant concern for the global auto industry chain. Hyundai Motors has been gradually suspending the production at its South Korean plant since February 4th, KIA Motors has also been suspended from work on the 10th, mainly due to the supply interruption of Chinese parts manufacturers. The industry anxiety caused by the epidemic has spread to global industry chains.

From the consumer side, the epidemic will lead people to rethink the way they travel in the future and may stimulate their desire to buy cars. However, at present, the auto market is still a stock one, so the epidemic will not bring significant driving effect on the auto market. If the epidemic lasts a long time, the sales of high-end models may be more vulnerable to the impact.

According to piaofang.maoyan.com, on the first day of the current lunar New Year, the box office took in only 1.81 million yuan, compared with 1.458 billion yuan in 2019. Cinemas lost at least 7.4 billion yuan in revenue during the seven-day lunar New Year holiday.

In these difficult times, Lost in Russia produced by Huanxi Media Group Limited became the first breaker by cooperating with ByteDance for free exclusive play on Toutiao, Tik Tok, ixigua and other platforms, with a view counts of more than 600 million by 180 million viewers in 3 days only, minimizing the loss of the producers in the event of withdrawal. There will probably be more movies premiering on streaming platforms in the future.

In addition to the suspension of film production and variety shows recording, art galleries, museums and exhibition halls around the country have also suspended exhibitions. Online virtual exhibition halls have emerged as the times require during the epidemic, serving as a safe viewing channel for art lovers. The WeChat applet “Bowuguan” jointly created by Guangdong Provincial Department of Culture and Tourism and other departments offers 100 online museums, allowing consumers to enjoy the key highlights of the collections with just a swipe of the finger. The advantages of online virtual exhibition halls are highlighted in this outbreak, which may become the service standard of many exhibition halls after the epidemic is over.

Theme parks are also affected. Christine McCarthy, Disney’s CFO, said in a teleconference that the temporary closure of the two theme parks in Shanghai and Hong Kong would have a negative impact on the total revenue in the second quarter. If the epidemic ends in March or April, Disney would be expected to see a rebound during the May 1st holiday and summer holiday season.
Industry impact

With the spread and development of the epidemic, sports around the country have been suspended, important events such as CSL and CBA have been postponed, and gyms & sports education institutions have been forced to close, which has cast a shadow over the previously high-flying sports industry in China.

All segments are affected to varying degrees, especially sports training, gym and offline sports retail. The chain gyms represented by SUPERMONKEY and Shape have suspended all classes. Nike announced the closure of half of its stores, and lululemon temporarily closed 29 stores in China.

However, in the long run, people will pay increasing attention to their health and show greater willingness to participate in sports to enhance their physical fitness after a serious epidemic. At the end of the SARS outbreak, about 20% of the people in Beijing bought new sports and fitness equipment. Sports equipment was even out of stock for a short period of time in addition to an obviously higher utilization rate of outdoor fitness venues, and a significant increase of daily average traffic in all fitness venues. We have reason to believe that the epidemic will not change the upward trend of the sports and fitness industry development, and it is believed that when the haze of the outbreak disappears, there will be more consumers joining the public fitness program.

The epidemic has quietly changed the traditional fitness habits of the public, who are unable to go out and must do exercise at home. Small-sized indoor fitness equipment has become increasingly popular in this period. According to the big data of Jingdong, during the Spring Festival, the sales of skipping ropes increased by 56%, dumbbells by 60%, chest developers by 109%, rowing machines by 134% and yoga mats by 150%; the increase in demand was even more pronounced among small-town residents, indicating the increase of fitness awareness in lower-tier cities.

In addition to those mentioned above, many emerging fitness products have also taken the lead during this period. For example, the Switch fitness ring, a body feeling game perfectly integrating fitness and checkpoints challenge, has sold out in most places, with the price doubling in others due to demand.

Courses offered on fitness teaching apps such as Keep and Codoon are also popular with consumers. In mid-January, Keep ranked about 260th in downloads on the Apple app store but soared to the 74th in early February. Its live fitness teaching on Tik Tok increased its fans by 18% in five days.

Some brands are also taking positive action. For example, NIKE has launched a campaign “Take advantage of this moment to build up”, encouraging people to use its own platform Nike Training Club to arrange personalized training. Lululemon offers 40 live yoga courses, and Under Armour also invited professional coaches to offer live streaming for one hour each day. Anta Kids has launched 36 micro malls online across the country and introduces the latest products and surprise benefits from time to time. The latest outdoor glasses introduced are very popular on Tik Tok, and many parents choose them as protective clothing for their children.

We believe that 2020, with the European Cup and the Tokyo Olympics coming, will still be a sporting year. After the epidemic ends, sports events, fitness training, sports equipment, sportswear and other related industries will usher in a golden period of development, while the home indoor fitness industry including fitness APP/live fitness and fun fitness equipment will also enjoy a considerable growth. And an increasing number of brands will focus more on Internet-based marketing, e-commerce and brand community establishment.
The home furniture industry’s plans for the year have been hampered by the outbreak of NCP, and many shopping malls have closed or shortened their business hours. IKEA has suspended the operation of all its 30 offline stores in mainland China since January 30th. Other home furnishing stores including Easyhome and Red Star Macalline have adjusted their opening date to the 15th or 22nd day of the month. The performance of the entire home furniture industry in January and February comes under the influence of the outbreak.

However, the offline experience-oriented home furnishing stores have also proactively reviewing how they operate during this period. They are transferring the interaction with consumers online relying on new media or new technology:

- GoldenHome has launched the marketing campaign of “staying at home and live promotion”, so that consumers can place an order of cabinets at home without going out;
- the scene purchase tools such as Kujiale and Taobao “Tangping” channel that ARROW has opened earlier can meet the needs of consumers to buy bathroom products in 360-degree panoramic view during the outbreak period;
- the MonnaLisa Members’ Home has provided the AR view function, enabling users to choose products at home easily.

During the epidemic, nearly 200 million people across the country are working at home, greatly increasing the home living and working time of consumers. It will stimulate people to make secondary improvements, micro improvements or new additions to their home, and therefore consumers will have more demand for new or small furniture. For example, IKEA has recently launched a series of “in-home guides”, recommending products to customers such as desktop storage, small desks and lighting.

Compared with large-scale furniture, small-sized items require less selection and actual experience in the store, so the home furniture categories may be more quickly put online with expansion of e-commerce channels and new categories.

The epidemic will have an obvious impact on the industry in the short term overall, but in the long term, it will not change the overall demand of consumers to improve their living environment and build a warm home.

Data source: official data of relevant home furnishing enterprises

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It can be said that crisis breeds opportunity for the home appliance industry.

From the supply side, most of the home appliance enterprises are faced with problems such as delayed resumption of work, blocked logistics and transportation, and insufficient supply of raw materials. Besides, Guangdong and Anhui, the major provinces of home appliance production in China, are severely affected by the epidemic. Therefore, in the first half of 2020, the home appliance industry may face the problem of output shortage in the short term.

From the demand side, since some home appliances are non-necessities, consumers are isolated at home due to epidemic prevention. As large-scale home appliances need home installation services and many companies would not be able to fulfill the demand, we see that the demand for air conditioning, range hood and other large-scale home appliances is depressed and may suffer a short-term effect.

The epidemic has also brought new opportunities for online channels, for kitchen appliance and health-related small appliances.

According to the prediction of All View Cloud, the online channel of domestic home appliance market may account for 70% of the market share in the first quarter of 2020.

For example, a lot of young families started cooking due to closure of many restaurants, which stimulates the consumption of kitchen appliances. According to big data of Suning, the sales of dishwashers and vegetable washers rose 133% during the Spring Festival. With the concentrated improvement of consumer health awareness, the sales of germicidal and health appliances soared. For example, many health-related and sterilized appliance offerings saw an increase of over 200% in sales on Jingdong platform, the sales of air purifiers on Jingdong increased by over 300% and water purifiers by over 100% as of the fourth day of the first lunar month.

Overall, the home appliance industry will be greatly affected in the first quarter, making it very important for brands to master the initiative of 618 promotion in the second quarter to improve the performance of the whole year. Home appliances that advocate home safety as well as sterilization and disinfection will be the top priority of category development.
Industry impact

FMCG (Fast moving consumer goods)

As the drinks are mainly rigid demand, and most enterprises have completed the preparation and distribution of goods before the Spring Festival, the impact of the epidemic on the food and drink industry is more reflected in the weakening of terminal sales due to the reduction of customers, as well as raw materials supply, logistics and transportation, factory operation and other links due to delayed resumption of work after the Spring Festival.

During the epidemic, there remains a high demand for cereals, oil, rice, noodles, fresh milk, seasonings, vegetables and fruits; when people are restricted to go out, the rigid demand for quick-frozen food (dumplings, glue pudding), convenient food (instant noodles, etc.), expanded food, fast-food meat and packaged water grew. As a result, in February, Master Kong, Uni-President Enterprises Corporation, Sanquan Food and other food companies all saw a rise in share prices bucking the trend.

The epidemic has a big impact on the alcohol market of China in the first quarter, causing temporary closure of catering outlets and recreation & leisure facilities at night, suspension of hotels operation and cancellation of dinner and wedding banquets. For example, the price of Moutai Flying Fairy, which used to be very stable, dropped from 2450 yuan before the Spring Festival to 2280 yuan.

As consumers and retail channels tend to hoard liquor before the Spring Festival, the selling cycle may be extended even after the epidemic is over, and the sales turnover will drop, thus impairing the operation of the whole category.

Interestingly, however, strong wine with alcohol concentration of 70% or higher is very popular with consumers against supply shortage of medical alcohol. For example, the world’s strongest wine, 96% Vodka, “water of life”, produced in Poland, has seen a 58-fold increase in sales during the Spring Festival and many consumers have made it into 75% alcohol solution, becoming “water of life” in a different sense.

Food & drink

Disadvantage: ★★★☆☆
Advantage: ★★★★☆

Data source:
CICC-Research, stock market disclosure of Master Kong, Uni-President Enterprises Corporation, Sanquan Food

Alcohol

Disadvantage: ★★★☆☆
Advantage: ★★☆☆☆

Data source:
public data of Taobao, China Alcoholic Drinks Association, minutes of Carlsberg Analyst Conference

At an analyst conference, Cees’t Hart, CEO of Carlsberg, the world’s third-largest brewer, talked about the likely negative impact of the epidemic on business in China in the first quarter. He believed that the impact is mainly reflected in ready-to-drink channels (including bars, restaurants and hotels), while the impact on non-ready-to-drink channels (including malls and supermarkets convenience stores and buffets) is much smaller.
Industry impact

FMCG (Fast moving consumer goods)

During this epidemic, the whole nation realized the importance of a strong immunity system in fighting the virus. Many pharmacies have sold out of vitamin C. It is believed that after the epidemic ends, there will be an increase in the basic nutrition, health care awareness and health care needs. More consumers will take a positive attitude towards health care products and invest more in them with the awareness of “prevention is better than treatment”. **Nutritional health products will embrace a new round of rapid growth**, directly benefiting the immune-related varieties such as vitamins, fish oil and protein powder.

The Interpretation of the Diagnosis and Treatment Program for 2019-nCoV issued by the National Health Commission also suggests the use of intestinal micro-ecological regulators to maintain the balance of intestinal micro-ecology and prevent secondary bacterial infections, so **probiotics** may see a rapid growth in the next three months. The treatment program also suggests TCM for treatment, so it is expected that the **Chinese health food** represented by astragalus, almond, ginger, tuckahoe, codonopsis pilosula and tangerine peel will also see a sales peak.

As the epidemic happened in the Spring Festival holiday when consumers tend to eat more but exercise less at home, there is a high demand for fat reduction; due to the closure of fitness venues, consumers turned to **dietary fiber supplements** to speed up metabolism, and the **enzyme category** ranked third in Taobao Top-selling Foods during the Spring Festival.

Overall, nutritional health products in 2020 will usher in a growth against the trend. For brand owners of health products, it is an opportunity to educate consumers, popularize knowledge of health products, adjust the product focus according to consumers’ health needs, and attract new consumer groups while increasing brand awareness.

Due to the shortage of epidemic prevention materials, the demand for disinfection related cleaning products in home cleaning category has increased sharply. Since the epidemic began on January 19th, all disinfection and epidemic prevention products have been out of stock in offline stores. Online stores and supermarkets also quickly sold out of the stock, and sales were booming.

According to moojnn.com, the sales of sterilization sprays increased by 743%, antibacterial soaps by 106%, disinfectant by 602%, the sales of 84 disinfectant by 917%, and the products with tags containing key words such as “disinfection”, “sterilization” and “immunity” by 267%, 143% and 123% respectively. The household disinfectant, antibacterial hand sanitizer and disinfectant wipes on and off the line were all out of stock.

The awareness of disinfection and sanitation arising from the epidemic is expected to last, and home cleaning products with the functions of “disinfection” and “sterilization” will be the largest growth point of the home cleaning market this year.
Industry impact

FMCG (Fast moving consumer goods)

Due to the epidemic, brick-and-mortar beauty retail stores are closed, and the work resumption of factories is delayed, posing a big impact on sales and supply chains. Offline brick-and-mortar retail has been hit the hardest, while the online business is less affected. However, the epidemic may suppress some impulsive consumption in the short term, which has negatively affected the sales during the Spring Festival, Valentine’s Day, Women’s Day and even the whole peak season of February and March.

Retailers are also actively adopting salvaging measures. For example, Watson launched a “contactless delivery” option for its “one-hour delivery” service nationwide on February 3rd, encouraging consumption via its applet, or the platforms such as Eleme, Meituan, dao.jia.jd.com, and Tmall. Sephora provides one-time make-up testing tools in stores, and actively promotes consumption via its official applet.

Brand owners are constantly launching new forms of online marketing, such as online auction in customer groups, online WeChat shopping by one click, consumer WeChat care, and live broadcast sales by employee, etc. Emerging brands have achieved a high growth: in the makeup industry, Perfect Diary firmly held the top place on Tmall Weekly Charts (1/27-2/2), domestic brands Florasis, Geoskincare, and CHIOTURE saw a significant rise, and Colorkey, a new comer, remained in top 10.

From the perspective of consumer demand, due to a long home stay, consumer demand and frequency of make-up use have dropped sharply in the short term, having a significant effect on lip makeup including lipsticks and lip gloss, as well as foundation and sunscreen products such as liquid foundation and sun screen. However, eye and eyebrow products such as eyebrow pencils, eye shadow, eyeliner and mascara, which remain exposed outside the mask, may rise against the trend in sales.

Beauty giants have different attitudes towards the impact of the epidemic. Agon, chairman and CEO of L’Oreal Group, believes that after the turmoil, there will be stronger consumption, and he is optimistic about the market development in 2020. Fabrizio Freda, Global CEO of Estee Lauder, believes that the epidemic will greatly affect the tourism retail in China, South Korea, Japan and other places, and has lowered the sales forecast for FY2020.

We believe that the epidemic will not change consumers’ pursuit of beauty but may change their definition of beauty; the basic skin care needs of consumers will not change, but the beauty of health may become a new demand. Beauty brands also need to re-evaluate consumers’ demands for personal care and beauty products after the epidemic ends, and review their capability in channel construction, online and offline integration, and data connectivity. For the individual beauty care products that are ahead of the time in new marketing, there may be a new upgrade and development under the epidemic.

Disadvantage: ★★☆☆☆

Advantage: ★★☆☆☆

Data source: public data of Taobao, L’Oreal Group’s annual report in FY2019, Estee Lauder Group’s Q2 report in FY2020
Industry impact

Internet service

As people tend to kill time by playing games, the game consoles saw a high tide of purchase during the epidemic.

According to jd.com, people aged 26 to 35 during the Spring Festival surpassed those aged 16 to 25 last year to become the main buyers of game products. Jingdong saw an increase of console turnover by over 200%, including Switch by nearly 50% and SONY PS4 by 133%. With the hot sale of Switch online, Nintendo took advantage of the trend at the end of January to increase the global sales forecast of Switch from 18 million to 19.5 million.

The online duration and recharge amount of the game were also significantly higher than in the past. During the Spring Festival, the current account of top 10 games on Apple’s best-selling list increased by 40%, and the daily current account peak of the best-selling game Honor of Kings on New Year’s Eve reached 2 billion yuan, up about 50%. The number of daily active users of Game for Peace also set a new high in history on New Year’s Eve, even resulting in a server crash.

Within casual games represented by board and card mobile games have also been sought after by all age groups as they have replaced the offline parties under the epidemic. There were four board and card games in Apple’s free-to-play list ranking in the top 10 during the Spring Festival, including Tencent Happy Mahjong in the third place.

It’s worth noting that Nintendo, Sony and Microsoft make 96% of their game consoles in China. The shutdown of plants caused by the epidemic has already affected console production, and Nintendo has said it will delay shipments of the Switch consoles and supporting devices.

The gaming industry, overall, is expected to exceed market expectations in the first quarter and will usher in a short-term boost. However, as the epidemic is brought under control and companies return to work, the number of users will also decline, and the hot market will return to normal.

The Spring Festival holiday is a crucial time for all video platforms to grab market share, and they ushered in a short period of prosperity this year. As people stay at home to fight against the epidemic, the traffic of the video platform is pushed to a new high.

The boring “grounded” life has directed many users’ attention to relaxing and entertaining short videos. As the saying goes, “one minute on Tik Tok, two hours on earth”, with TikTok becoming the choice of many people as a “time killer”. TikTok and Kuaishou users increased their daily average online time (DAOT) by nearly 100 million hours during the period from January 26th to 30th over the time before the festival (from January 1st to 23rd). Besides, TikTok, Kuaishou and other short video platforms have become an important source of information on the epidemic for many consumers. At the same time, users have released their enthusiasm for creation at an unprecedented rate. Before the release of this article, the TikTok topic #MyDullVacation - has received up to 133 thousand contributions with a view count of 7.18 billion.

The epidemic gives consumers more free time, helping long video platforms stand firm in the battle for traffic. From January 25th to 30th (from the first day to the sixth day of the first lunar month), the DAOT of iQiyi users was 2.8 hours. There were 1.18 million users online at the same time on the night of February 1st when the hit show Korean TV soap opera Love’s Crash Landing was played, crashing the server.

“The battle of video platforms will eventually be the battle of content”. As the long-term and high-density video content during the epidemic tends to cause consumers’ visual fatigue in the short term, the platform needs to continuously output more high-quality content to prevent user losses after the epidemic ends.
Industry impact

Internet service

Online education

Disadvantage:

Advantage:

Livestream

Disadvantage:

Advantage:

Livestream has experienced a spurt of growth during the epidemic. The livestream content is mainly composed of four types, namely sales, facts, popular science and classes.

On February 5th, Li Jiaqi returned to work after the Spring Festival, with nearly 15 million viewers. Compared with the last live with goods before the lunar new year, the number was almost the same. His products mainly include cosmetics, with no lipsticks, and he also puts on shelves the hot-selling products during the epidemic such as disinfectant, self-heating hot pot and turkey noodles.

As video anchors promote goods, major brands also plan livestream activities to stimulate customers’ consumption demand. For example, Hisense gives livestream on how to perform daily protection, Haier opens a livestream room for small quality and healthy home appliances, and Yili invites nutrition experts to make online science popularization of feeding strategies for immunity regulation.

The Ministry of Education will also launch a national online cloud classroom on February 17th, allowing schools around the country to organize online learning to achieve “no learning suspension against school closure”. Many video platforms have set a special zone bringing together live channels of many educational brands. For example, Kuaishou has provided a tab of “no learning suspension against school closure” on the App’s side column, together with more than 40 enterprises including genshuixue.com, and VIPKID.

With the first wave of classes, many online education companies have attracted many free users during the epidemic with rapid product iterations. According to the data disclosed by NetEase Technology, the average cost of customer acquisition for online education companies before the outbreak was as high as 1,000 yuan.

However, it’s up to the professional teachers and superior teaching content to convert the surging traffic into paying users. It can be predicted that this epidemic will accelerate the transformation of offline training institutions, and help more students and parents get used to the online education.

Data source:
APPs, official websites and public information of relevant brands

The epidemic has also further expanded the application scenarios of livestream, including the construction of Huoshenshan and Leishenshan hospitals, where tens of thousands of netizens served as cloud supervisors; livestream of free medical consultation by doctors and experts to popularize knowledge of epidemic prevention; live house viewing organized by real estate companies, and live music festival of the show business.

It is believed that, at the end of the epidemic, many businesses will break the shackles of the industry and make bold use of livestream platforms to interact with consumers. In the future, there will be more industries integrated with livestream, to expand new services and business models, and explore a group of potential users of livestream platforms.

Data source:
public data of Taobao, official information of relevant brands
Industry impact

Internet service

With the development of the epidemic, work resumption has been delayed in many regions and enterprises are encouraged to work at home. According to DingTalk, nearly 200 million people in tens of millions of enterprises in China have started working at home since February 3rd.

Working at home has directly driven soaring downloads of office applications. According to WeLink data from Huawei cloud, 15,000 enterprises registered as WeLink users on February 2nd. On February 5th, DingTalk and Enterprise WeChat downloads took first and second place in App Store free app list respectively, and DingTalk became the first office software to take the top spot in App Store.

Meanwhile, many remote office software companies have rapidly launched free apps. For example, RTX Meeting opens the 300-member meeting system, Alibaba DingTalk offers a full range of “home office” solutions and Zoom offers free online video conferencing with no time limit.

Remote collaboration software has also become an indispensable tool for enterprises in project management and work collaboration during the epidemic. According to ASO100, during the period from January 29th to February 4th, the IOS of online office software Jinshan WPS saw 920,000 downloads. The main demand arising during the epidemic is not the same as that at ordinary times. Different from the previous scenarios which usually involves three parties, now it is hundreds, thousands or even tens of thousands of people online at the same time, which puts forward higher requirements for the products in system expansion and technology upgrading.

Under the epidemic, telecommuting software has been widely used with the number of users and application scopes expanded significantly, and it also offers an opportunity for people to experience the charm of home working and online office: it is possible to be as efficient as centralized office if there are right tools. It is believed that the need of hundreds of millions of people for online office every day may create another trillion-yuan market.

Remote office

Disadvantage: ★★★★★

Advantage: ★★★★★

Data source: App Store, Sealand Securities
Consumer research

In order to help you better understand the impact of the epidemic on consumption, as well as the potential for a rebound in consumer spending in China after the epidemic, Kantar Consulting team conducted a quick consumer survey via WeChat from February 6th to 9th. A total of more than 1,000 real-name registered respondents answered our questionnaires, including nearly 200 samples from Hubei province, a key epidemic area.

Channel side

Impact of the epidemic on retail and forecast on follow-up rebound

During the epidemic, emerging new retail channels became very important due to the fact that consumers were discouraged from outdoor activities, and with many merchants extending the Spring Festival holiday longer than anticipated, with an explosive increase in the purchase of raw food materials to reflect the need for home cooking.

Approximately 55% of the respondents purchased through integrated e-commerce platforms (such as Tmall, JD.com, Taobao, etc.) during the epidemic, almost on a par with supermarkets (58%) which ranked first on the list. 35% of consumers purchased through O2O channels providing home delivery service (including ele.me, Meituan, Dingdong, etc.), close to that of hypermarkets (34%). Since people are required to stay at home during the epidemic, the community owned WeChat groups have also become an unexpected traffic platform, with ordering via community WeChat group are used by 35% of consumers (ordering via WeChat group, unified distribution by community).

Shopping channel choices during the epidemic

(N=1093)
Consumer research

In the survey, consumers said that they would gradually resume the frequency of purchasing through conventional offline channels after the epidemic. 56% of them would go to hypermarkets more frequently, while 37% would choose to go to supermarkets. Nevertheless, the penetration rate of online channels is forecast to grow more strongly: 42% of consumers tend to purchase through integrated e-commerce platforms, compared with only 8% who would buy less from such channels; 31% would prefer new retail experience stores such as freshhema.com.

In contrast, while O2O platforms have been used more frequently during the epidemic; only 32% of respondents said they would use them more after the epidemic, while 17% said they would use such platforms less after the epidemic. This highlights the need for customer retention strategies on O2O platforms.

Possibilities of change in various channels after the epidemic

(N=1093)  | The frequency of use gradually increases | Unchanged | The frequency of use gradually decreases
---|---|---|---
Integrated e-commerce platforms | | | 42% |
Supermarket | | | 51% |
Hypermarkets | | | 11% |
Fruit Store/fruit and vegetable convenience store | | | 10% |
O2O food delivery platforms | | | 17% |
New retail experience store | | | 13% |
Vertical e-commerce website/APP | | | 13% |
Community WeChat ordering | | | 18% |
Social e-commerce | | | 13% |
Convenience stores | | | 13% |
Traditional farmer’s market/vegetable market | | | 23% |
Boutique/import supermarkets | | | 18% |
personal care products store | | | 13% |
Small shop/Mom and pop shop | | | 25% |

Note:
- Hypermarkets,
- supermarkets,
- boutique/import supermarkets (such as Cityshop, Ole, etc.),
- new retail experience stores (such as Freshhema.com, Yonghui, Super Species, etc.),
- personal care products stores (such as Watsons, Mannings, etc.),
- Convenience Stores (such as FamilyMart, Lawson, etc.),
- integrated e-commerce platforms (such as JD.com, Taobao, Tmall),
- vertical e-commerce websites/APPs (specialized in such products as vegetables and fruits),
- O2O food delivery platforms (such as Are you ele.me, Meituan, Dingdong etc.),
- social-e-commerce platforms (such as Xiaohongshu, Pinduoduo, etc.),
- ordering via community WeChat group (such as ordering via WeChat group, unified delivery by community)
## Consumer research

### Consumption end

**Impact of the epidemic on consumption and forecasts on follow-up rebound**

In our previous analysis we looked at the impact of the epidemic across various industries. In this survey, the questionnaire was designed to probe into their spending across 24 target industries, as well as their willingness to resume or even increase consumption in such industries after the epidemic.

These industries can be divided into six categories based on consumption changes during and after the epidemic:

### Analysis and forecast on impact of the epidemic on consumption

*Source of data and analysis: Kantar Consulting*

<table>
<thead>
<tr>
<th>Spending decreased/canceled</th>
<th>Less affected by the epidemic/Almost unchanged</th>
<th>Spending increased</th>
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<tbody>
<tr>
<td>Out-of-home entertainment</td>
<td>Personal care products</td>
<td>Basic epidemic prevention products</td>
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<tr>
<td>Alcohol</td>
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<td>Household cleaning products</td>
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<tr>
<td>Out-of-home dining and gathering</td>
<td></td>
<td>Medicine</td>
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<td>Fitness group classes</td>
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<td>Online entertainment</td>
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<td>Medical beauty</td>
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<td>Food and beverage</td>
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<tr>
<td>Clothing and accessories</td>
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<td>Advanced epidemic prevention products</td>
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<td>Luxury</td>
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<td>Nutrition and health products</td>
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<td>Home fitness equipment</td>
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</tbody>
</table>

*During the epidemic*  

*Expected After the epidemic*
We have found that industries including tourism, catering and entertainment have been greatly affected due to minimizing activities outdoors by consumers during the epidemic with 75% of consumers having completely canceled related consumption, and about 17% reduced their spending in the three sectors.

During the epidemic, there are four key industries with different levels of stock outages based on rapidly increased consumer spending; the basic epidemic prevention (such as masks, sterilized water, etc.); advanced epidemic prevention (such as air purifiers, ultraviolet sterilization lamps, sterilizing cabinets, etc.); health food (such as vitamins, grape seeds, etc.); and medicine (such as cold medicine, antipyretics, etc.). Consumers will maintain a higher than average level of spending in them even after the epidemic ends. We have also found that consumers in Hubei have significantly higher demands on health products than other areas in China.

But after the epidemic, there is huge potential for a rebound; with 82% of the respondents claiming they would resume out-of-home dining and gathering, 78% would resume travel, and 77% would resume out-of-home entertainment.

Industries with a less direct relationship to the epidemic have a lower degree of impact but still see significant changes, for example 57% of consumers reduced or canceled alcohol consumption due to cancellation of dining together or visiting friends and relatives; within beauty (reduction + cancellation = 56%) and clothing (reduction + Cancel = 66%). However, our data shows a more robust consumption rebound will occur in such industries after the epidemic ends.

Consumer purchases of certain categories also increased during the epidemic; within food and beverages (increase in spending among 49% of respondents), household cleaning (increase in spending among 48% of respondents), medical insurance (increase in spending among 38% of respondents). Additionally, we see that the proportion of consumers purchasing medical insurance in Hubei province was significantly higher than that of other regions in China. There is still signs that there is a strong willingness for consumers to buy these categories after the epidemic.

### Categories with demand decreased due to the epidemic

- Out-of-home dining and gathering: 95%
- Out-of-home entertainment: 92%
- Travel: 97%
- Hairdressing/manicure: 72%
- Fitness group classes/personal training: 68%
- Clothing and accessories: 66%
- Medical beauty: 65%
- Luxury: 61%
- Alcohol: 57%
- Beauty products: 56%
- Financial management/stock: 54%
- Large appliances: 50%
- Small appliances: 47%
- Consumer electronics: 48%
- Home fitness equipment: 43%

### Categories with demand increased due to the epidemic

- Basic epidemic prevention products: 88%
- Advanced epidemic prevention products: 77%
- Medicine: 67%
- Food and beverage: 49%
- Household cleaning products: 48%
- Online entertainment: 40%
- Nutrition and health products: 40%
- Medical/life insurance: 38%

### Categories less affected by the epidemic

- Personal care products: 43%
Respondents said that they would also pay more attention to health-related consumption in the future. After the epidemic, 83% of the respondents would still buy masks and disinfectant for storage at home, 65% would turn wearing masks into a daily habit, 76% would pay attention to the sterilization and disinfection effects of personal care and household cleaning products, and 63% would buy related appliances for disinfection.

Generally speaking, consumption within the luxury sector is likely to be greatly affected greatly during the epidemic: 61% of respondents reduced or canceled their spending on luxury during the epidemic, and 21% of respondents would reduce their spending on luxury after the epidemic, which makes spending on luxury the most likely to be reduced. This may be related to deeper changes in consumption attitude of people.

Overall we see that people are tending to be more conservative in their spending. Compared with those advocating “living in the moment”, there are more people holding the view that “we should plan ahead” and “reduce unnecessary expenditures” (among which, the proportion of consumers in Hubei province is higher than other areas in China).

People will pay more attention to things that cannot be bought with money in life, such as “spending more time with family and friends”, “more substantial spiritual world”, and “better yourself”. When it comes to consumer’s attitude towards brands, people are “willing to spend more on socially responsible brands”, “pay more for a healthier environment and services”, and “focus more on environmental protection and sustainable development.” To some extent, this also reflects the value of a brand. Not for icing on the cake, but for the timely help. We believe that the well-earned reputation in such a period will definitely support the long-term development of a brand.
Consumer research

“Stay-at-home Economy”

How do people live when staying at home?

Our survey also revealed a picture of consumers’ who have embraced the “stay-at-home economy”.

Not surprisingly, video-based activities have become the most common way to spend time. Watching long videos (58%), watching short videos (56%), and watching traditional TV programs (41%) are the most mentioned activities. Digital entertainment activities are also very common, such as playing mobile games/online games (39%, the proportion of men is significantly higher than that of women), online entertainment activities (Karaok/Langrensha/landlords, etc.) (24%, the proportion in Hubei is significantly higher than other areas of the country), watch live broadcasts (sports games, Huya, Yizhibo, etc.) (20%).

People also take the time to improve themselves: 23% of respondents do fitness at home, of which the number of women is still significantly higher than that of men; 30% of respondents study online, and 26% of the respondent’s study/read offline (again the proportion in Hubei is significantly than the rest of the country).

There are also two interesting figures: As people’s outing activities decreased during the epidemic, only 10% of the respondents spent time on skin care, while 54% of the respondents chose to sleep instead.

28% of the respondents choose cooking or baking at home, (with the number of women significantly higher than that of men). 23% of the respondents are enjoying parent-child time, and the same number of people are supervising their children’s learning.

What are people doing when staying at home?

Note:
- Mobile games/online games (Arena of Valor/Game For Peace/World of Warcraft, etc.),
- online long videos (Tencent/iQIYI/Mango/Bilibili/Korean TV, etc.),
- short video APP (Douyin/Kuaishou etc.),
- online entertainment (Karaok/Langrensha/Draw Something/landlords, etc.),
- live broadcast (t Huya/Yizhibo etc.),
- indoor fitness (Keep APP/rope skipping/dumbbells, etc.),
- indoor entertainment (playing Lego/models and toys/Mahjong/DIY activities, etc.),
- parent-child interaction (supervised learning excluded)
Consumer research

Media contact points with use frequency significantly increased after the epidemic

The epidemic has also changed people’s habits of using the media. More than 40% of the respondents said that they spent significantly more time on short format video and video websites after the start of epidemic. Other media that have seen an upswing in use include digital news platforms (37%), social media (34%), TV advertisements (33%), and online music (26%).

Note:
- News platform (News.qq.com/News.163.com/Toutiao.com, etc.),
- social media (WeChat/Weibo, etc.),
- e-commerce website APP (Taobao/JD.com/Pinduoduo, etc.),
- short video APP (Douyin/Kuaishou, etc.),
- Video Website APP (Tencent/Mango/iQiYi/bilibili, etc.),
- Online Music (such as QQ Music, Kugou, Music.163.com, etc.),
- Network Audio (such as Himalayan, Liuyi, Qingting.fm, etc.),
- Vertical APP/Forums (Hupu/Tuhu/Mafengwo/Douban, etc.),
- Smart TV/Internet TV OTT advertisements (such as Tmall Box, Mi Box, etc.),
- search engine (Baidu/Sogou, etc.),
- medical/consultation platforms (such as Weiyi, etc.)

It is very important to note that this epidemic has driven many consumers to try new ways of interacting with media, new forms of consumption and new ways to receiving their goods, thus providing opportunities for increasing penetration in many emerging industries. Among all respondents, 84% said they tried at least one new service, with online medical consultation (34%) and online education (33%) mentioned most, followed by telecommuting (29%) and first attempt of paying for digital entertainment services (26%).

First attempts during the epidemic (N=1093)

- Online consultation: 34%
- Online education courses: 33%
- Telecommuting software: 29%
- Pay for online entertainment: 26%
- Watch live broadcast through mobile phone: 21%
- Social e-commerce/Community groups: 18%
- Buy indoor fitness equipment: 14%
- Try online banking: 13%
The NCP epidemic has a severe impact on all industries, but also creates opportunities amid the challenges.

The epidemic has obvious impacts on the catering, tourism, luxury, etc. All of these industries will face a huge pressure in the Q1 business performance, and need to overcome many potential difficulties to recover the business and make development in the medium period.

But industries like medical care, e-commerce and international service have increased tremendously, and have great business potential for the future.

This epidemic will eventually pass. It is a challenge and an opportunity for us. We believe that, after the tough tests of the epidemic, each industry will demonstrate a good development trend; and enterprises may obtain a new round of growth if grasping the opportunity to transform and upgrade.

“If Winter comes, can Spring be far behind?”
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About us

We are a data and evidence-based agency providing insights and actionable recommendations to clients, worldwide.

We have a complete, unique and rounded understanding of people around the world: how they think, feel and act; globally and locally in over 90 markets. We know more about people than any consultancy and we know more about business than any research agency.

By combining the expertise of our people, our data resources and benchmarks, our innovative analytics and technology, we help our clients understand people and inspire growth.

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