

How Chinese consumers are changing shopping habits in response to COVID-19

An analysis of point of sale data for over 100 million shoppers shows four key trends that are likely to persist post-crisis.

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China is ahead of the curve in its recovery from the recent COVID-19 outbreak, with many provinces slowly returning to normal levels of activity. Factories are restarting production and consumers are beginning to spend again. However, the crisis has had a dramatic and lingering impact on the nation's shopping habits, with implications for brands in China and globally.

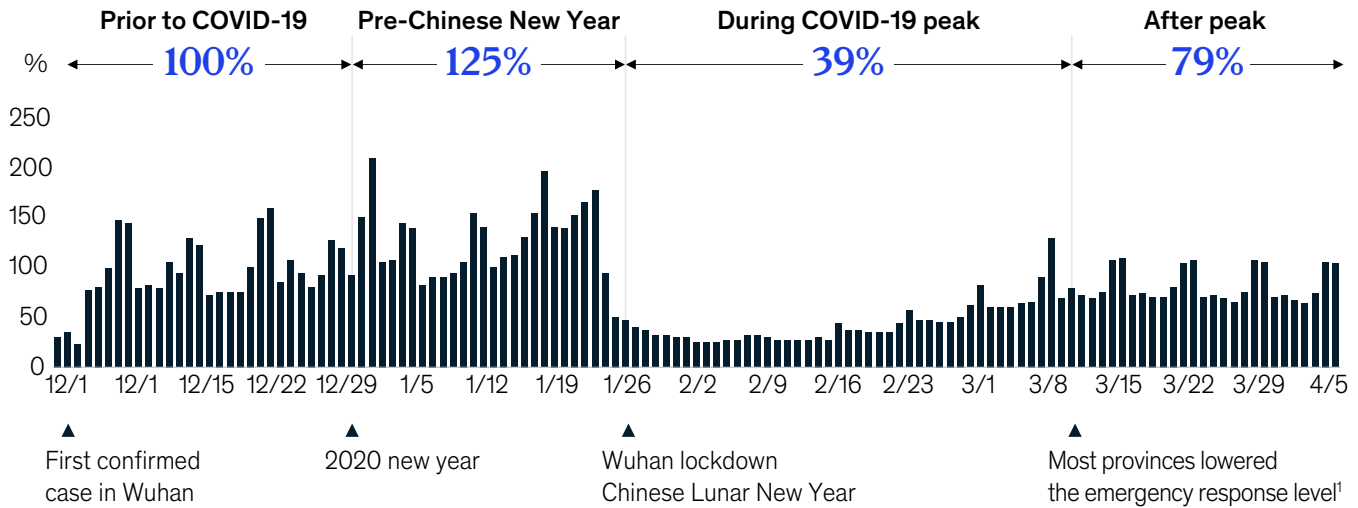
McKinsey worked with MIYA, a leading mobile payment solutions provider, to analyze point-of-sale (POS) data from 31,000 stores and 500 million+ transactions, covering 150+ cities, including Wuhan and Hubei, and 100 million+ shoppers. The data reveals four key shifts that are persisting even as the peak impact of the virus abates.

1. Offline shopping is slowly recovering, but discretionary spend, night-time shopping, and epicenter spend are lagging

Offline consumption is slowly recovering, after falling to around 39 percent of normal levels during the peak period of the outbreak. Many local authorities loosened restrictions in the first week of March, giving shops an opportunity to welcome customers who had been isolated in their homes for as long as six weeks. Over the following days, activity picked up to around 79 percent of pre-crisis levels (Exhibit 1).

Exhibit 1

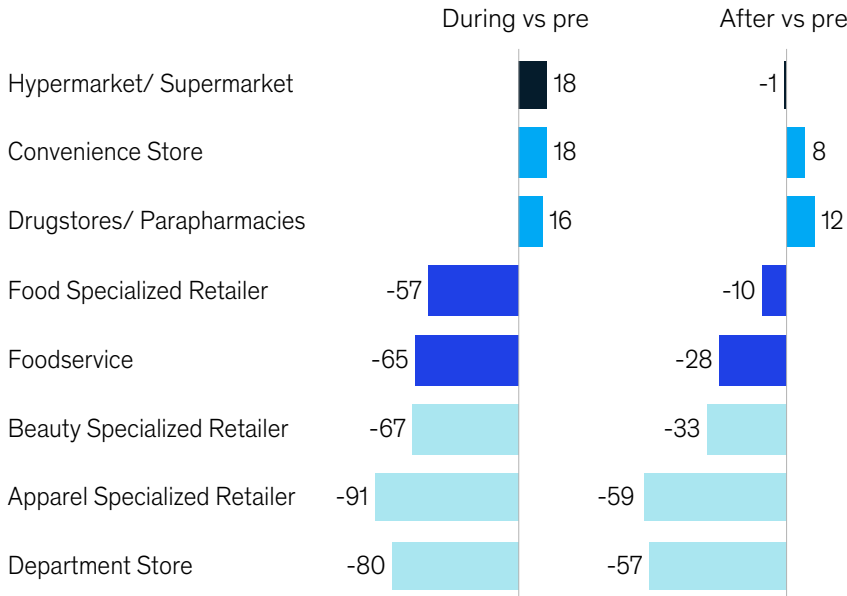
China offline consumption is still impacted after the outbreak



¹On March 8, 21 provinces in China announced the lowering of the epidemic response level, covering over 70 percent of the country's population
Source: MIYA payment data engine

Some channels have fared better than others

Daily Consumption, 100%=avg. in Dec 2019



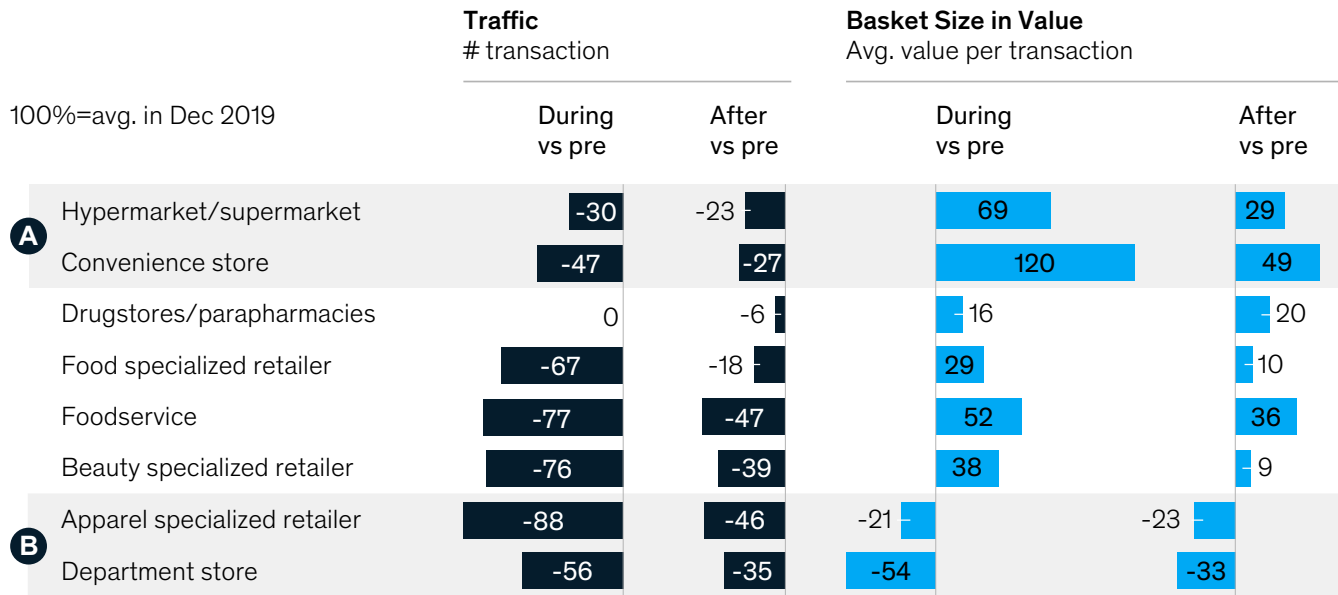
- Hyper/supermarkets and CVS saw spikes in demand** during the peak, as more people cooked at home. However, demand has normalized in recent weeks
- CVS and Drug Stores** are still seeing higher-than-normal levels of demand, showing COVID-19 has a longer-lasting impact than the 2003 SARS crisis
- Food stores & restaurant are still not fully recovered**, due to control policies (e.g. spaces between tables & dinners) and the long lasting impact of COVID-19
- Apparel & department stores were hit hard and are recovering slowly.** Offline apparel spending declined 90% during the peak

Source: MIYA payment data engine

Despite the partial rebound, there were significant variations, amid continuing pressure on discretionary categories. Supermarkets, convenience stores, and drugstores saw a spike in activity during the crisis, as consumers stocked up on essentials and cooked at home. However, after the peak there was a divergence (Exhibit 2). Supermarket volumes fell, while convenience stores and drugstores continued to see positive momentum, driven by demand for medicines and a desire among many people to shop near their homes. Discretionary categories, such as food service outlets, apparel stores, and department stores were hit hard during the crisis and their recovery has been slow.

A notable trend across categories during the outbreak was increased basket sizes in non-discretionary categories, reflecting consumer aversion to shopping trips and willingness to spend more per visit to reduce travel frequency. Convenience store basket sizes rose 120 percent during the crisis, and remained 45 percent higher as the crisis abated. Discretionary categories, such as department and apparel stores, on the other hand, saw smaller basket sizes (Exhibit 3). Department store basket sizes were 54 percent smaller during the crisis, and have recovered only slightly in recent weeks, to a level that is around 33 percent smaller than before the crisis. Again, this may be a reflection of people's reluctance to spend too long in crowded environments.

Traffic fell and baskets expanded



A Consumers made fewer shopping trips but filled baskets more, resulting in sales growth at supermarkets and CVS

B While 80% of apparel stores and department store have re-opened, consumption and traffic still 40-50% below pre-COVID levels

Source: MIYA payment data engine

Absolute traffic levels fell dramatically in all categories except drug stores during the crisis (30 percent lower for supermarkets and 88 percent lower for apparel outlets), and continued to be lighter than normal after the peak. Some 80 percent of apparel stores have reopened, but footfall in discretionary categories is still 40-50 percent below pre-COVID-19 levels. In non-discretionary categories it is around 30 percent lower.

The impact of the crisis on shopping habits was revealed through the times of day at which people ventured out (Exhibit 4). In normal times, weekend and evenings are peak shopping times in China—weekend traffic is generally 30 percent higher than weekday traffic and evening traffic is 50 percent higher than day traffic. The traffic curves were much flatter during the height of the

outbreak, with weekend traffic just 10 percent higher than weekday traffic and evening peak hours about 15 percent higher than daytime peaks. Again, the pace of recovery has been slow, with shopping patterns continuing to echo those at the height of the crisis. Daily transaction volumes have recovered by around 50 percent from the trough.

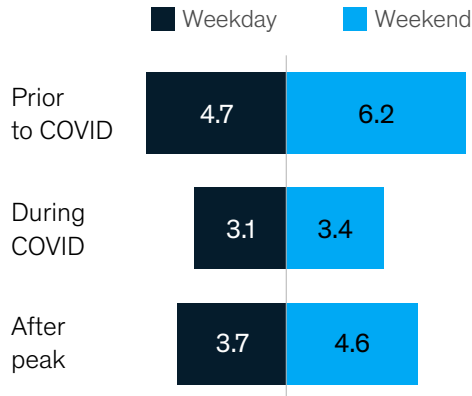
Tier 1 cities such as Beijing, Shanghai, and Shenzhen are the busiest in China, and these normally-crowded environments have been slower to recover than lower-tier cities. Most channels have continued to see much lower spending, in the region of 25 to 60 percent. Cities at the epicenter of the outbreak (in Hubei province) have also seen sluggish recoveries. There has, however, been some variation across channels (Exhibit 5).

Weekend and evening shopping fell significantly and have not fully recovered

But likely to back to normal after COVID

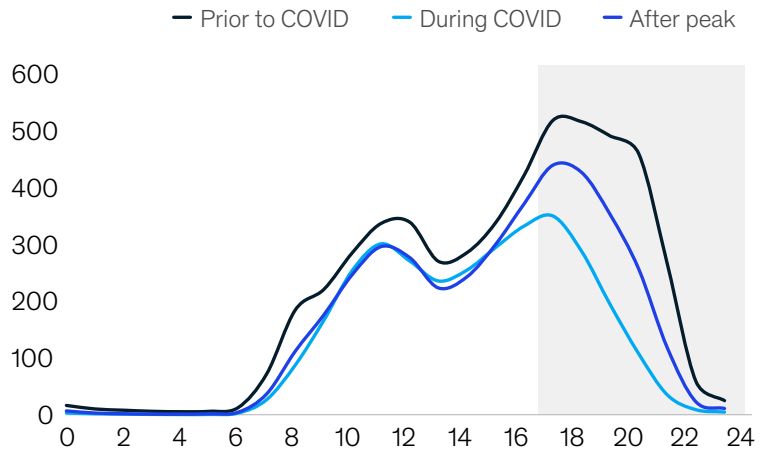
Comparably less shopping on weekend due to infection risk

#transactions per day, normalized



Less shopping at nighttime due to curfew policy of residence

transactions per day, normalized



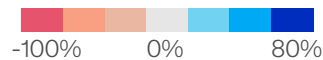
Source: MIYA payment data engine

The epicenter has recovered more slowly than elsewhere

Based on observation of selected cities

After vs pre avg. daily consumption in selected cities

0% = baseline, avg. in Dec 2019



	Wuhan	Hubei— other cities	Tier 1 cities: BJ, SH, SZ, CQ	Provincial capital cities ¹	Other cities ¹
Hypermarket/supermarket	-39%	64%	1%	-6%	-1%
CVS	-32%	25%	36%	16%	9%
Drugstores/para pharmacies	N.A	N.A	-34%	34%	51%
Food specialized retailer	-25%	14%	-25%	10%	4%
Foodservice	N.A	-69%	-41%	-15%	-30%
Beauty specialized retailer	-91%	3%	-47%	-34%	-33%
Apparel	N.A	-63%	-61%	-62%	-54%
Department store	N.A	-69%	-59%	-53%	-51%

Slow epicenter recovery due to store closures and control policy

Some epicenter cities have seen a spike in grocery consumption, 64% more in supermarkets than before crisis

Tier-1 cities have been slower to recover than other cities; reopen rate is already 90+%

Source: MIYA payment engine, McKinsey data talks—retail under COVID-19 in 2020

2. Channel shift to online, offline convenience, and drugstores

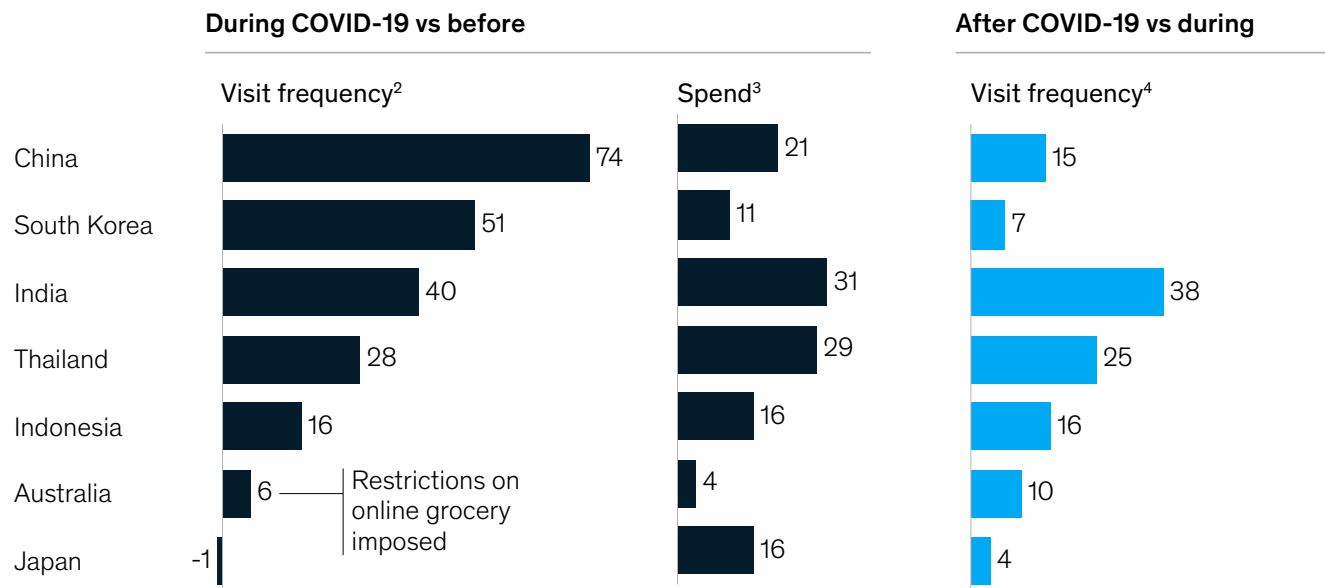
A trend that emerged from the crisis is the accelerating growth of the online channel, which benefited from the lockdown, store closures, and the continued reluctance of consumers to engage in-person with sales and service staff (Exhibit 6). In the grocery category, there was a spike in online shopping during the peak, with consumers spending more time and money online. Some 74 percent of consumers bought additional groceries online at the peak and 21 percent spent more. Chinese consumers were ahead of consumers in other countries in respect of frequency of online shopping, including South Korea (51 percent increased frequency) and India (40 percent.) In recent weeks, online activity in China has moderated, but visits are still running at 15 percent above pre-crisis levels.

Another emerging dynamic is that convenience stores have performed well in the wake of the outbreak (as they did at the peak), with tier 1 cities seeing the biggest uplifts (Exhibit 7). CVS daily consumption in tier 1 cities has run at around 36 percent above pre-crisis levels (as at December 2019). Again, this is likely the result of continuing caution in respect of travelling and mixing in large groups. Some cities at the epicenter have seen the strongest rebounds in the hypermarket/ supermarket channel, recording a 64 percent rise in volumes compared with December. This has been driven by relatively tighter restrictions on movement than in the rest of the country, and limited alternative sources of food. Drugstores have fared particularly well in provincial capitals, but have seen a drop-off in tier 1 cities as the impacts of the outbreak have diminished.

Exhibit 6

An acceleration in online grocery shopping

Online grocery channel net reported behavior during COVID-19 vs before; net intent for after COVID-19 vs during (now)¹



¹Net behavior is calculated by subtracting the % of shoppers in the channel stating they have decreased visit frequency or spending in the channel from the % stating they increased frequency or spending

²Q: Among the below grocery shopping channels, which ones do you visit more/less frequently during the COVID-19 outbreak compared to before?

³Q: Which store types have you increased/ decreased your spending per month during the COVID-19 outbreak compared to before

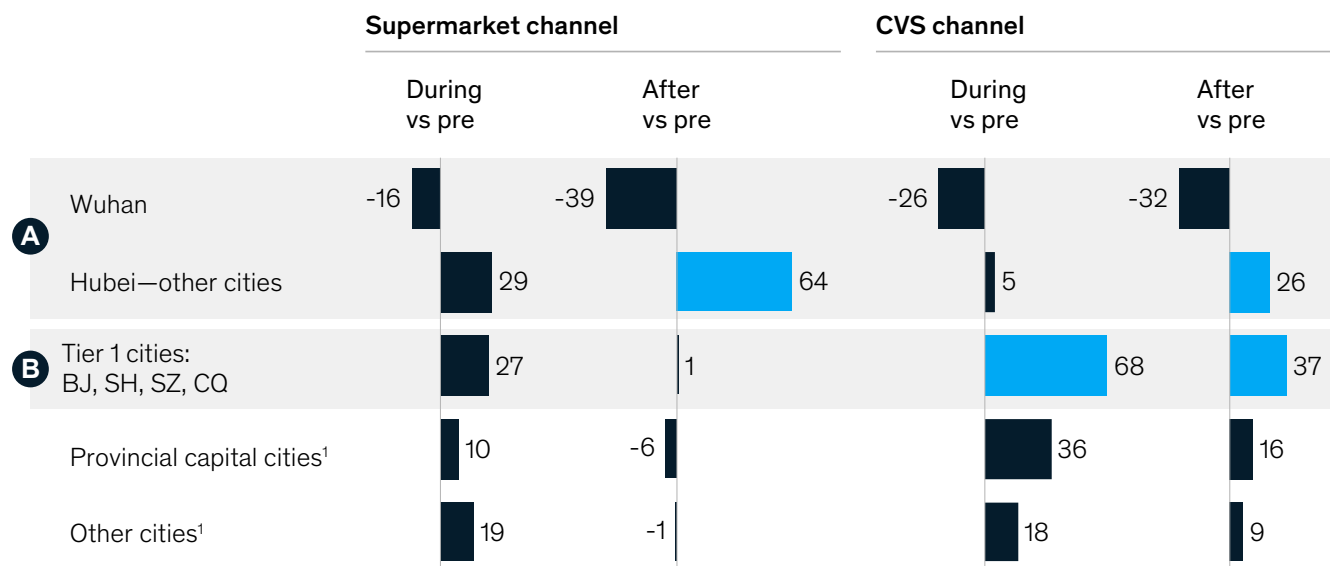
⁴Q: Within the below store types, which ones do you think you will visit more / less frequently after the COVID-19 outbreak stabilizes?

Source: COVID-19 mobile survey, 3/21-3/25/2020 N = 5,013, sampled and balanced to match general population (except India, with higher focus on consuming class)

Consumers in tier 1 cities spent more in CVS during and after the crisis

Based on observation of selected cities¹

Avg. daily consumption in supermarkets vs CVS by city¹, %



Epicenter recovery impacted by store opening schedule

A Wuhan supermarket and CVS spending was less impacted during the peak than after, due to the continuing lock-down and supply issues

B Hubei/other cities supermarket and CVS growth is due to low opening rate of other food related channels

¹Cover selected cities: Beijing, Shanghai, Chongqing, Guangdong, Zhejiang, Jiangsu, Shanxi, Shandong, Jilin, Fujian, Sichuan, Jiangxi and Hubei
Source: MIYA payment engine

3. Health and fitness is here to stay

COVID-19 has emphasized the importance of staying fit and healthy, and changing attitudes are reflected in shopping behaviors that have persisted in recent weeks. Demand for dairy, vegetables, and eggs was 25-30 percent higher during the initial recovery phase than it was before the crisis. Supermarket and convenience store data shows that, aside from fresh food, popular items during and after the peak of the crisis included grains, ready-to-cook meals, packaged food, and snacks. This reflected a degree of “stocking up” and, again, travel

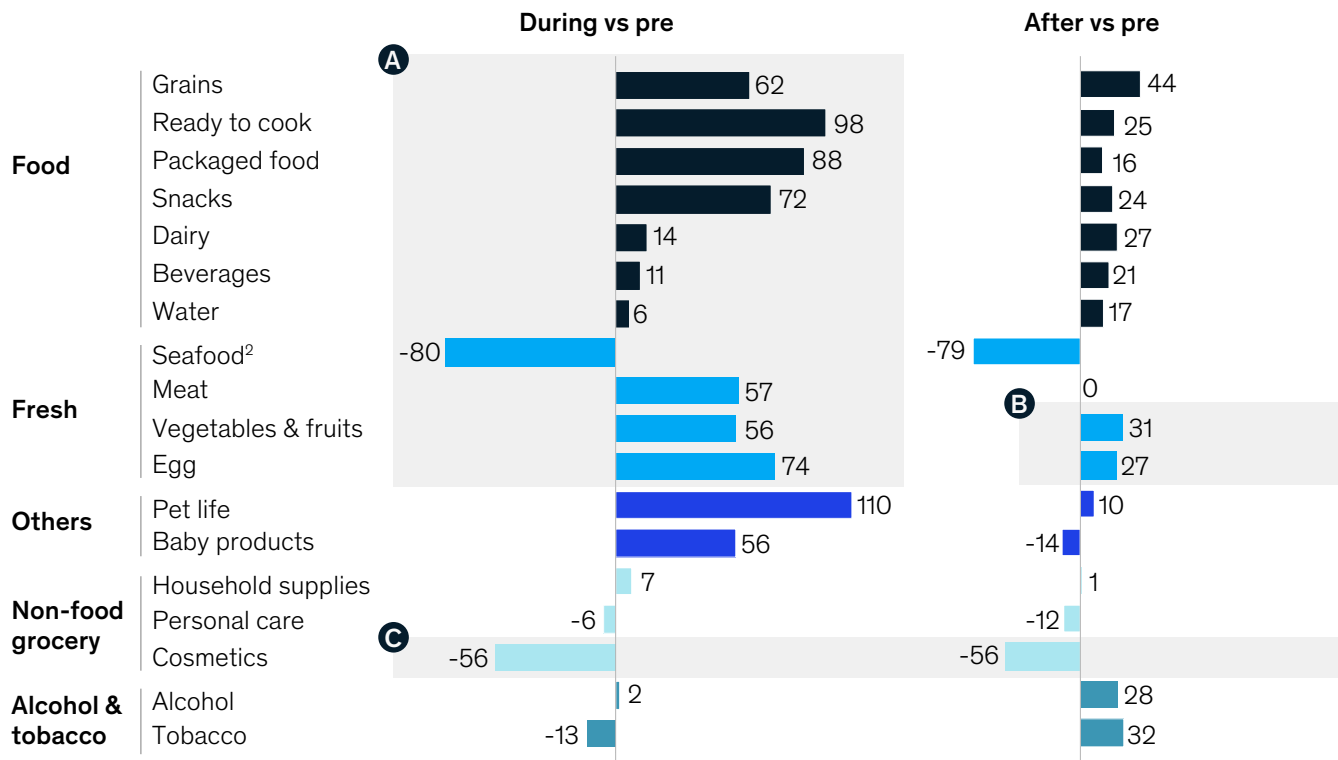
aversion. Demand for these has softened of late but is still running above pre-crisis levels. There was a reduction in demand for personal care products and cosmetics in January and February, and these categories are only recovering slowly (Exhibit 8).

As shoppers have gravitated toward local stores, they have expanded the range of items they buy, adding more grains and fresh foods to their baskets (Exhibit 9). If the trend continues, suppliers in these categories may need to plan for a less centralized distribution model, in which individual CVS stores are likely to carry fewer brands in any single type of product.

People stocked up on essentials and bought more fresh foods

Based on grocery basket analysis, data from supermarket and CVS

Daily consumption in value¹
100%=avg. Dec 2019



Consumption shift in short term with increase demand for essentials; non-essential consumption picks up recovery speed later

A **Food first during crisis:** people bought 60-80% more food and fresh produce, to prepare for staying at home during the lockdown

B **Healthy trends** in dairy, vegetables, fruit, and eggs both during and after the peak

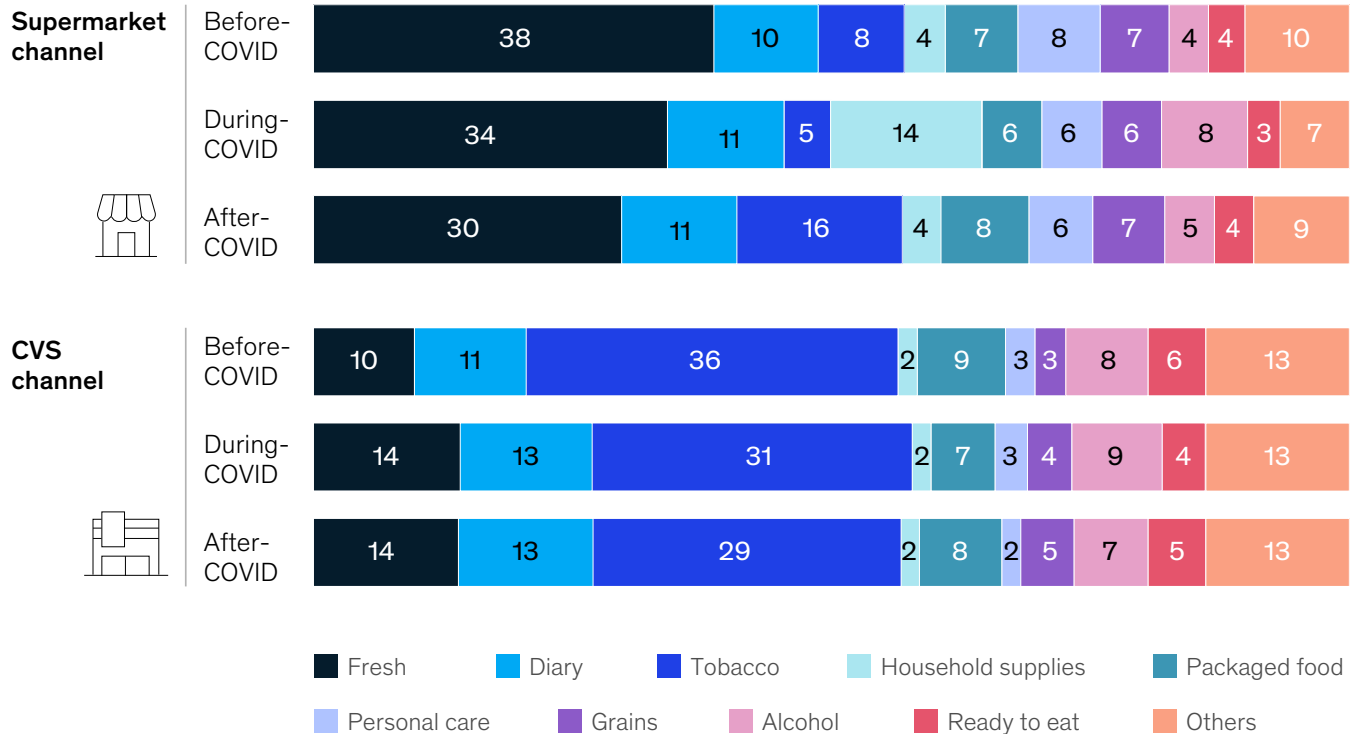
C Cosmetics have seen a shift to on-line during and after the peak

¹Based on grocery basket analysis, data from supermarket and CVS
²Seafood sales down due to limitations in the supply of fresh seafood
Source: MIYA payment engine

Increased demand for grains and fresh food at CVS

Based on grocery basket analysis, data from supermarkets and CVS

Category % in supermarkets and CVS, 100%=Total consumption in the time period



Source: MIYA payment engine

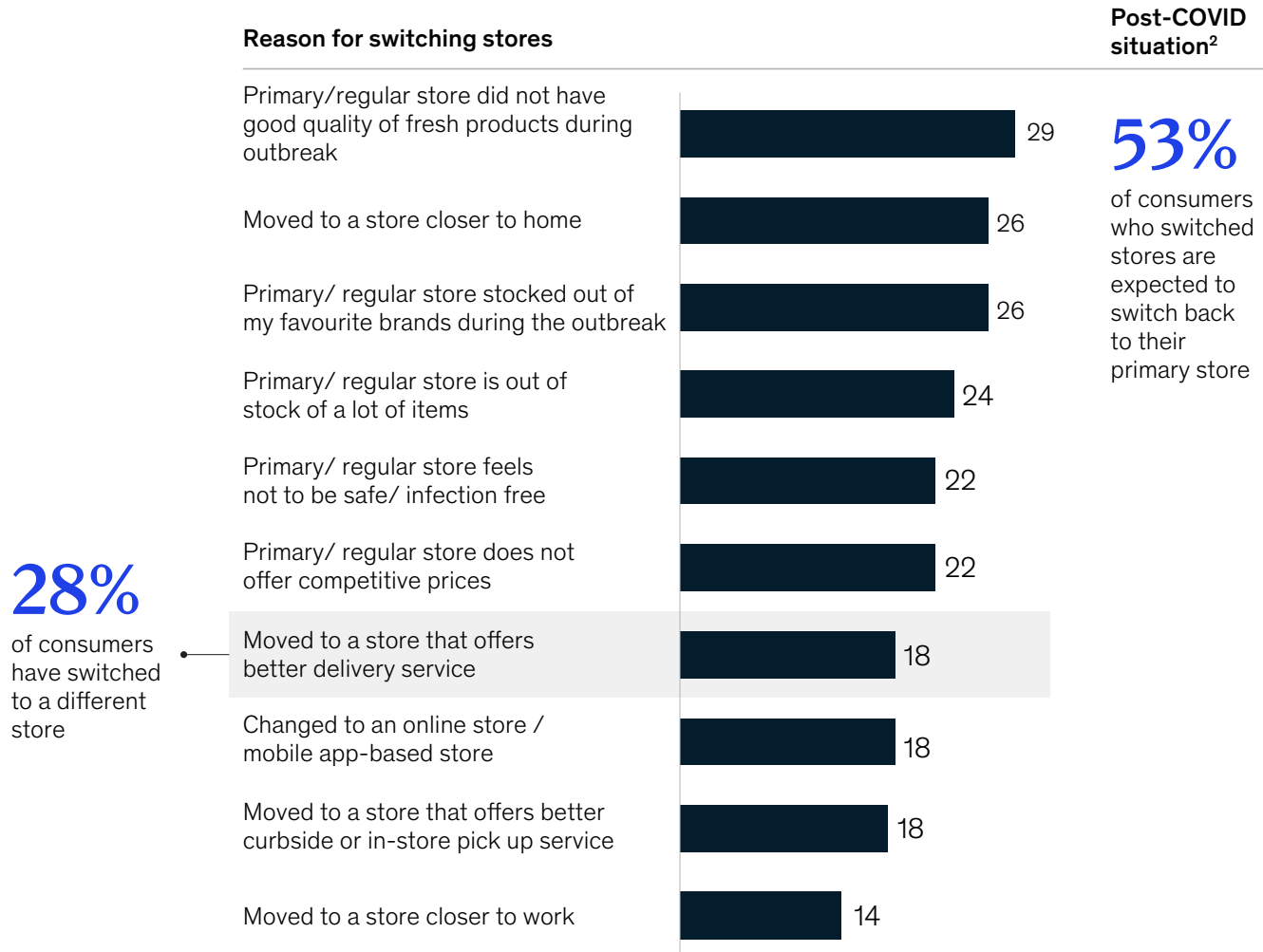
4. Shock to loyalty offline, partly offset by online engagement

Given the physical constraints of the crisis, Chinese customers have been more willing to try new stores and new brands. After the peak, around 14 percent do not plan to revert to their pre-crisis store choices and about 6 percent do not plan to return to their previous brands (Exhibits 10 and 11). To engage with these dynamics, hard-hit categories such as apparel have ramped up their digital activities. One premium fashion retailer, for example, invested in online channels such as Tmall, store applications,

and social media. Its offline sales fell by about 50 percent in March, but its online sales grew by 60 percent. A large grocery retailer saw a 300 percent spike in demand for its home delivery service and has launched a major effort to triple its online business in 2020.

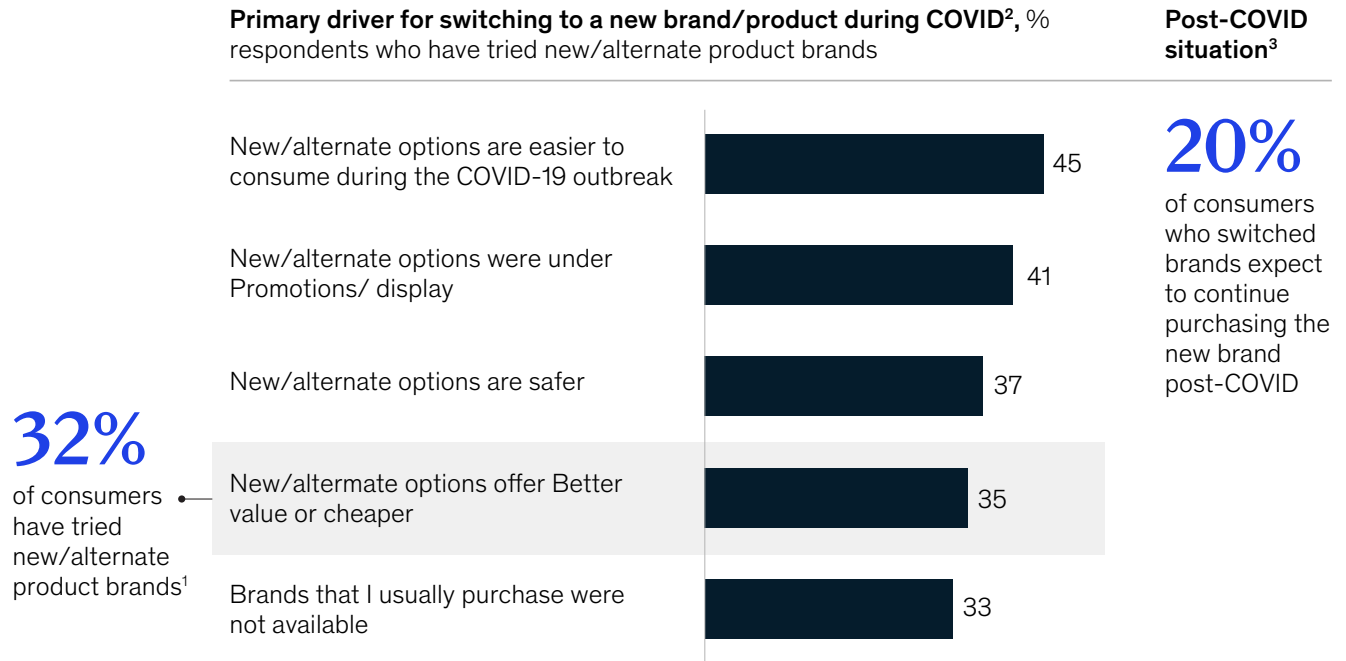
In aggregate, the data shows that COVID-19 has had a profound and persistent impact on the nation's shopping habits. The implications for brands in China, and other countries that may follow China's path to recovery, can be summarized under four strategic pillars:

More than a quarter of shoppers have shifted away from their primary stores, of which 47% do not intend to switch back



Source: McKinsey & Company COVID-19 mobile survey 3/21-3/23/2020 N = 611 Sampled and balanced to match China's general population 18-65 years-old

A third have switched brands based on convenience and promo/display, of which 20% intend to stick to their new choice



¹ Q: Have you tried new/alternate product brands during the current COVID outbreak that you do not usually purchase?

² Q: Why did you switch from the brands you usually purchase to new/ alternate options? (N = 196, Percent of responses from consumers who have tried new new/alternate product brands)

³ Q: After COVID, do you in general plan to switch back to the product brands you usually purchased before? (N = 196, Percent of responses from consumers who have tried new new/alternate product brands)

Source: McKinsey & Company COVID-19 mobile survey 3/21-3/23/2020 N = 611 Sampled and balanced to match China's general population 18-65 years-old

1. **Continue to protect customers and employees.** COVID-19 is likely to have a lingering effect on consumer attitudes and sentiment. Assuming the virus is not eliminated in the near future, companies should redesign their protocols and operating models to reflect the new reality. This, for example, would include setting out exactly what should happen if a person catches the virus.
2. **Drive triple digital transformation.** Digital has been one of the few real beneficiaries of the crisis. We see three ways in which companies can respond:
 - **Manage your business in real time and digitally.** The POS data has shown that the outbreak has had a significant impact on geographies, channels, and categories. Businesses now operate at a very different cadence, with decision-making required at much higher levels of granularity and shorter intervals to reflect increased uncertainty. This requires a digital-first approach and agile organizational capabilities. Many companies set up war rooms during the crisis, but had very limited access to information. In future, it will be critical to have a real-time view on inventory and a strategy for deployment across regions. Data and analytics will be important tools.

- **Don't just sell online; engage your customers digitally end-to-end.** Chinese consumers increasingly demand an omnichannel experience, meaning they want more than to be sold to online. One premium apparel retailer has deployed a range of solutions, including enabling sales reps to use WeChat groups to reach out to VIP customers with individualized products (supported by a CRM system), launching social media shows with Key Opinion Leaders (KOLs), and ramping up content marketing. The bottom line is that companies must engage the entire organization to prepare for an omnichannel world. This requires a digital network architecture, backed by a dedicated operational set up, KPIs, and objectives and key results (OKR) frameworks that can help the organization define goals and track outcomes.

- **Transform your business model.** To increase operating efficiency and effectiveness, companies should aim to incorporate technology across the business. Before COVID-19, retailers were already deploying digital use cases, including seamless check out, pricing, promotions, assortment optimization, and robotic process automation in the back office. However, few retailers managed to scale across the value chain, typically because of factors including a lack of top-down ownership and ambition, insufficient capabilities, siloed ways-of-working, outsourced IT functions, and legacy systems. COVID-19 has shown the need to transform the business model to be more tech-enabled, which will both help the company operate under the constraints of pandemics and meet customer safety needs. The business case is there: tech can improve efficiency by 2-5 percent of sales and, depending on starting position, drive sales and make or break

market share during a crisis. Retailers need to pursue a triple transformation of people (new capabilities and ways of working), technology (modularizing core tech and deploying software-as-a-service across the value chain) and business (delivering value for the customer).

3. **Align with consumer trends: healthy, local, and delivering value.** The data shows that the trend toward healthier lifestyles accelerated during the COVID-19 outbreak. People also shopped local, both in terms of location and products. For companies with strong cash positions, there is an opportunity to respond, leveraging M&A and hiring to expand into adjacencies such as food services, or acquiring smaller brands that may be struggling.
4. **Transform your supply chain to be agile and resilient.** Supply chains attracted a lot of attention during COVID-19 and we expect they will continue to sit high on executive agendas. During a crisis, it can be dangerous to have a large amount of working capital locked up in inventory and facing potential write-off (or sale at a deep discount). The acceleration of omnichannel also creates a real challenge for many consumer packaged goods brands and retailers, because of the prohibitive cost: growth in online does not imply growth in profits. Companies should use the coming period to transform their supply chains, accelerating decision making to become more efficient, agile, and resilient.

As executives consider their options, these strategies may help them support resilience and lay the foundations for the 'next normal' in the months ahead. Retailers and consumer brands have been challenged in recent months, but those that can act decisively on all four fronts are likely to emerge ahead of their peers once the crisis is over.

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