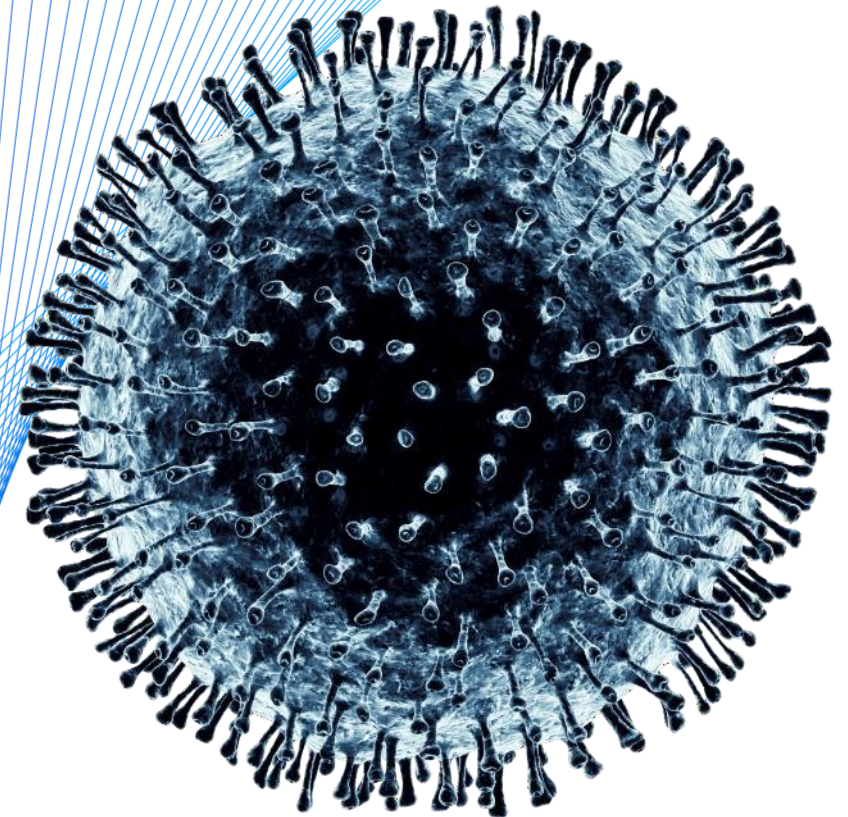


Consumer Behaviour Pre- and Post-COVID-19: **China and Australia**

Presentation for the AFGC membership

July 2, 2020

Xin Huang, Partner, Hong Kong
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Introductions



Xin Huang

Partner, Hong Kong

Leader, Consumer Sector Covid Response, Asia



Thomas Rüdiger Smith

Associate Partner, Sydney

Leader, Consumer Retail practice in Australia

Agenda for today's discussion

Transition to the 'Next Normal': China

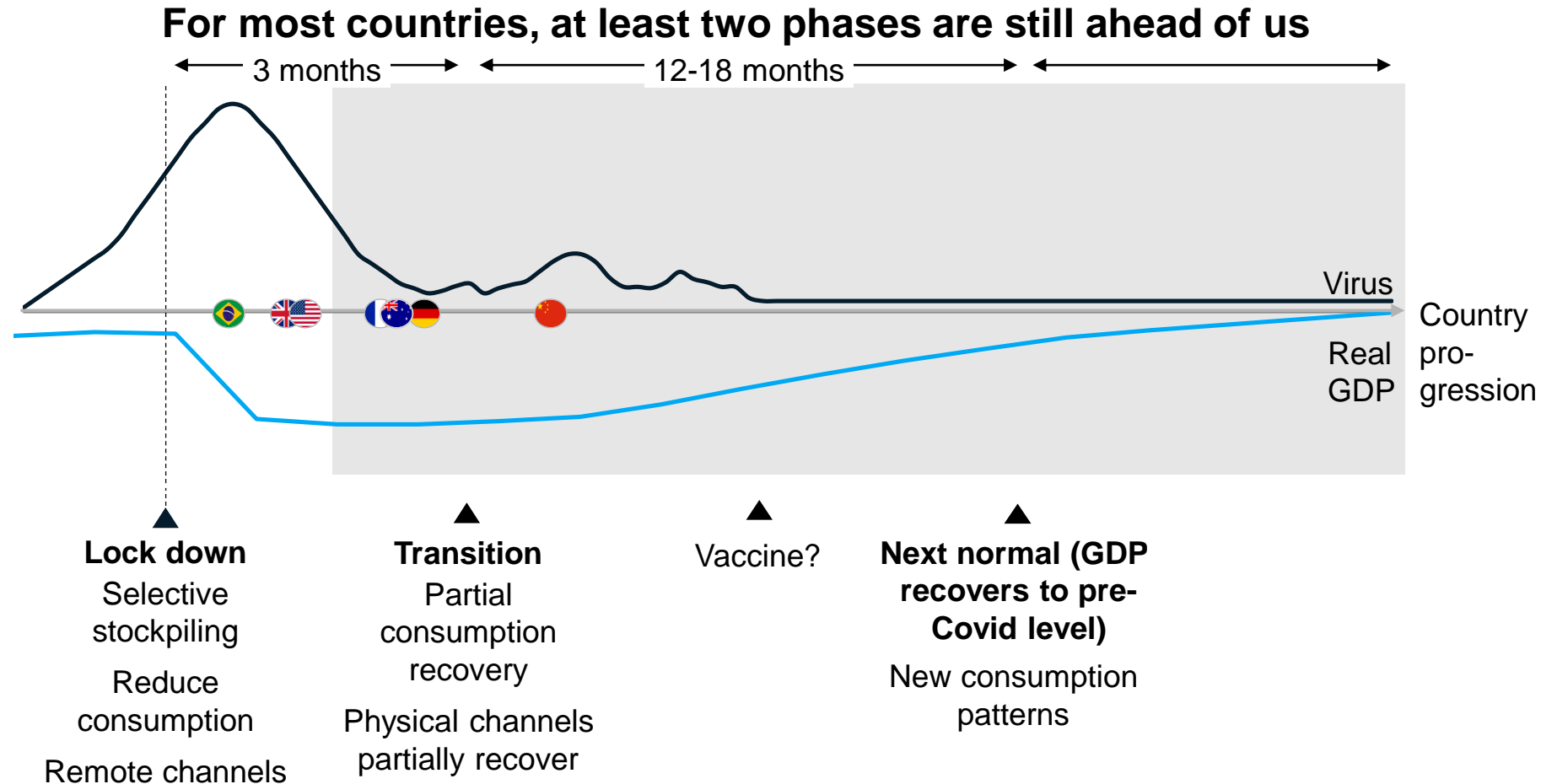
Covid Impact: Australia

Implications for CPG and Retail

Q&A

Transition and Next Normal will be very different vs. what we experienced in lockdown—China leads the way

Illustrative



Consumers have been forced out of their habits into new ones by three main forces:
epidemiological evolution,
regulatory response,
economic slowdown

These forces could carry over the next 6-24 months in various shapes or forms and could continue to transform consumer behaviors

Stickiness of consumers' new habits in the Next Normal will depend in large part on the quality of the experience consumers have had during the transition period

Transition to the 'Next Normal': China

We combine consumer survey and off-line payment engine data to understand Chinese consumer attitudes and behavior before, during, and emerging from the COVID-19 impact

McKinsey
& Company

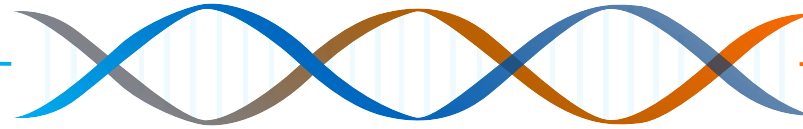
Consumer survey

A quick mobile consumer survey that covers

611 selected consumers

46 cities

8 categories



Miya



Leading China

Mobile Payment Provider

Leading mobile payment solution provider for offline merchants. For this analysis, we analyzed

31,000+ stores

150+ cities

~100 million payers

~500 million transactions

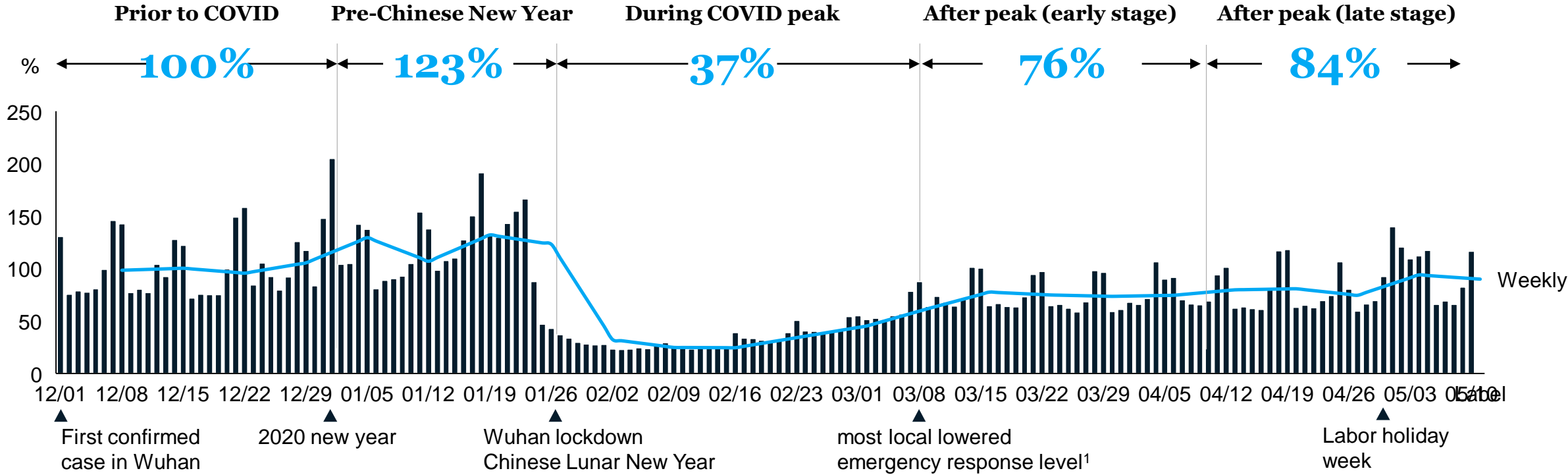


China had came off the peak, and offline consumption resuming with lingering effect...



China offline avg. consumption by day and week

100%= avg. daily consumption in Dec 2019



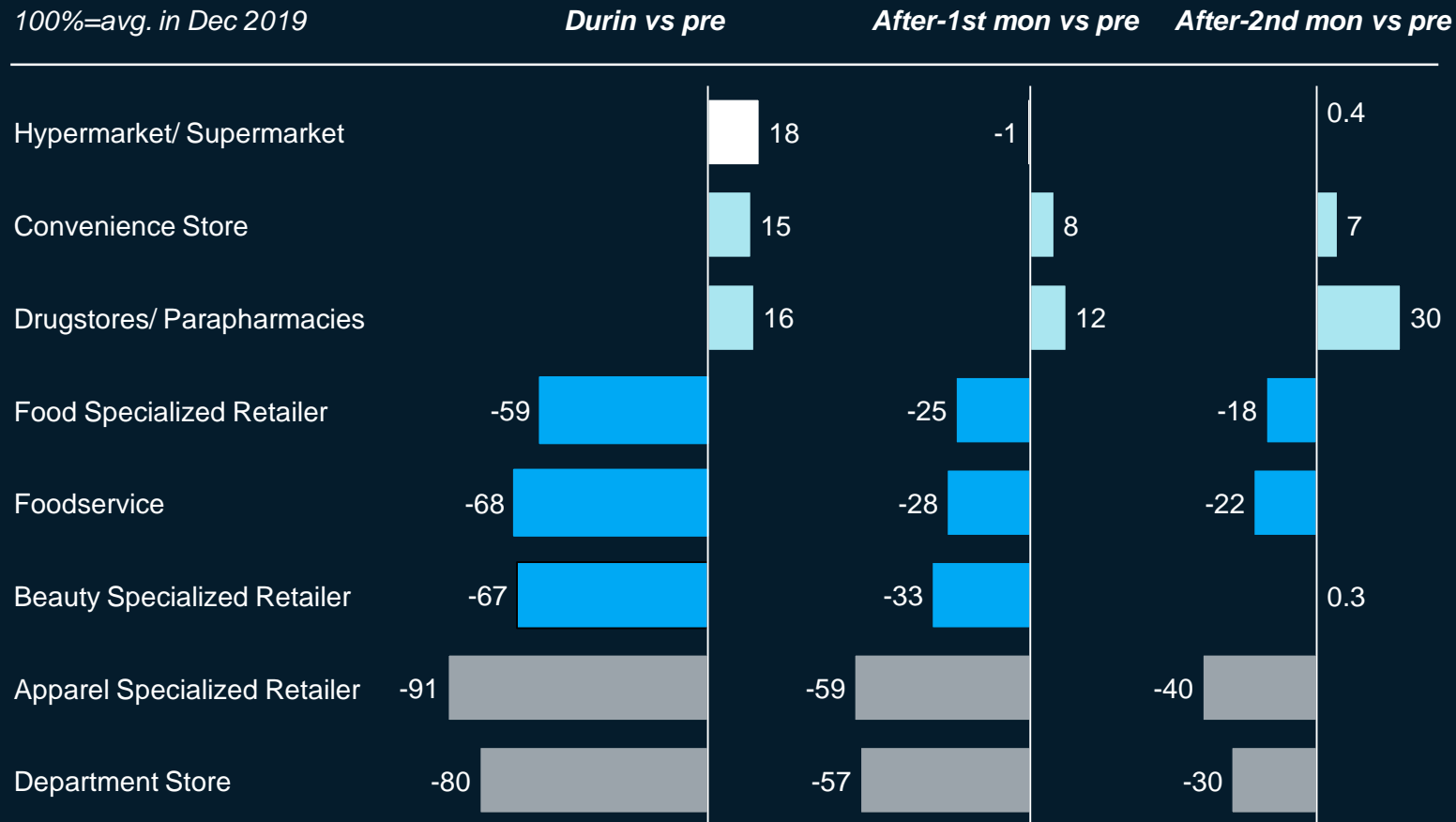
1. On March 8th, 21 provinces of China announced to lower the epidemic response level, which involves over 70% population of the country.

...but not for discretionary channels such as apparel and department store, while CVS maintains some uplift momentum



Daily Consumption

100%=avg. in Dec 2019



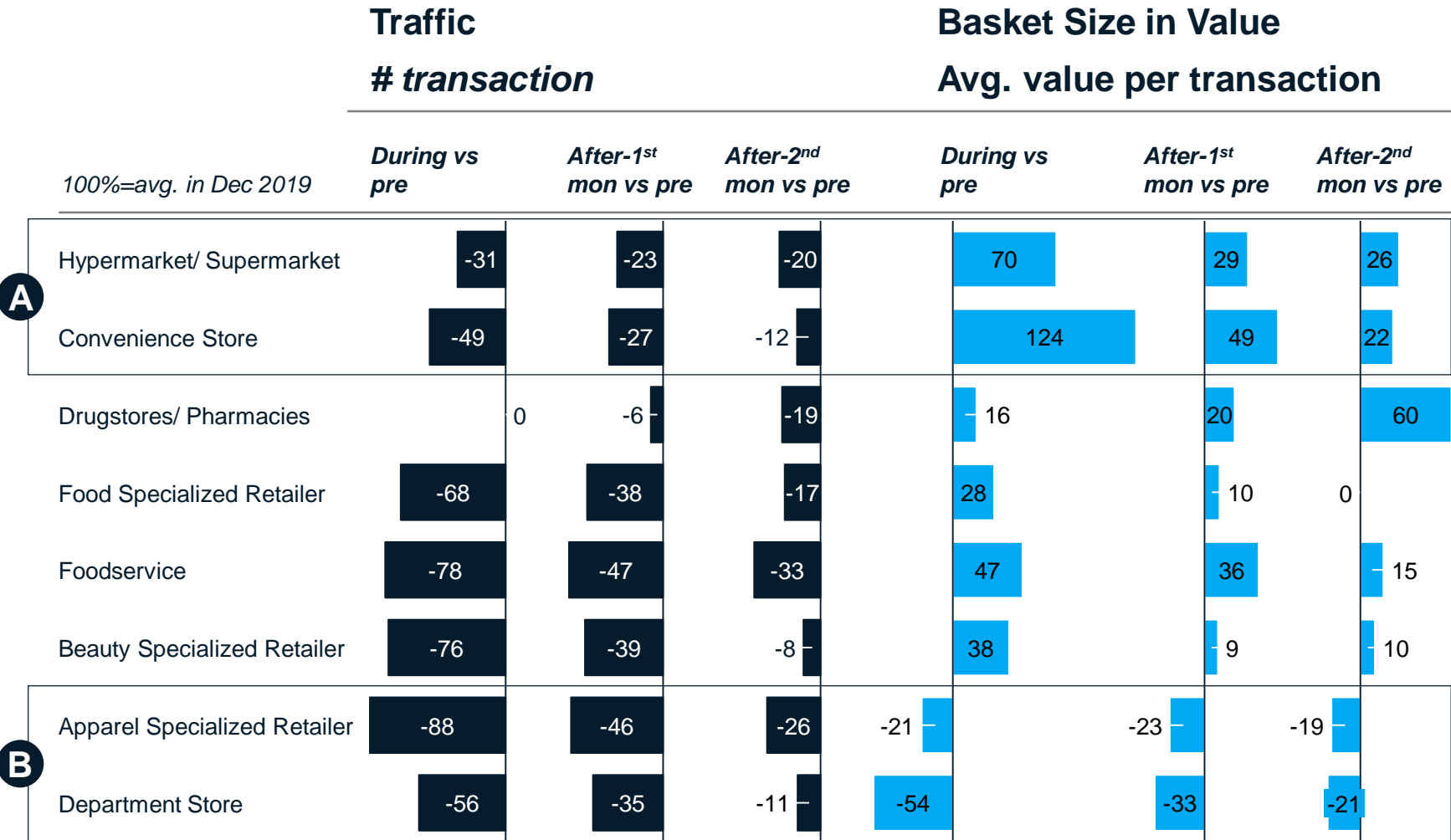
Hyper/super market shows spike during crisis along with CVS, due to more people cook at home, yet no sign of a lasting uplift as it comes back to normal level when the recovery starts

CVS and Drug Stores are still above their historic levels due to long lasting impact of COVID-19 (e.g., compared to SARS)

Food stores & restaurant are still not fully recovered due to long lasting impact of COVID-19

Apparel & Department Store were hit hard and recover slowly. Offline spending on apparel is devastating with 90% decline during virus peak

Traffic drops and basket size increases are common theme



A Consumers drastically reduce the number of shopping trips but increase their baskets significantly, resulting in sales growth in supermarket and CVS

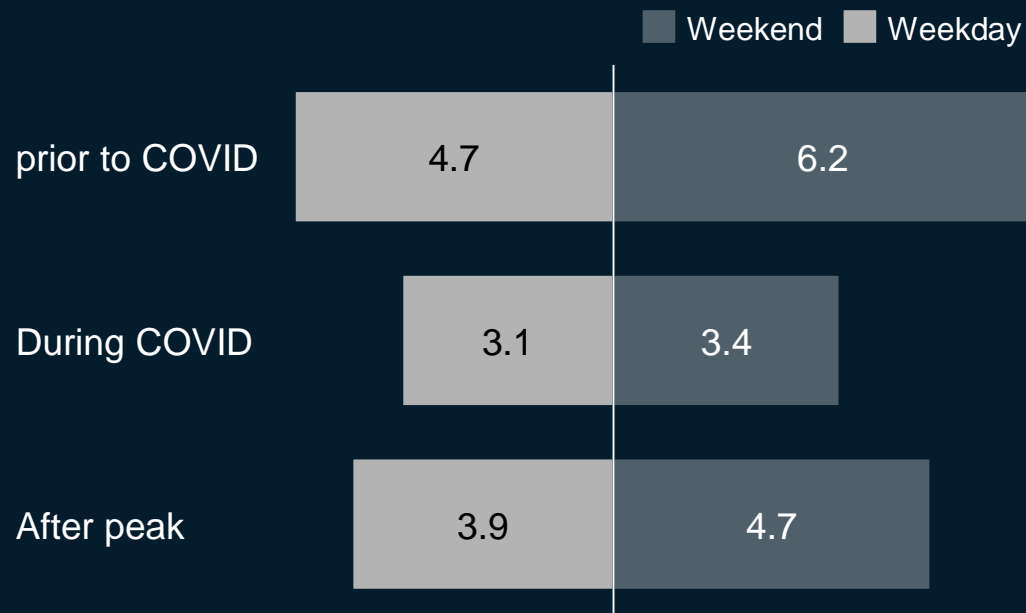
B While ~95% of apparel stores and department store have re-opened, traffic still ~20% below pre-COVID levels

Source: MIYA payment data engine, McKinsey China retail POS analysis 20191201 – 20200510

Weekend and night shopping reduced significantly during the peak and have not fully recovered

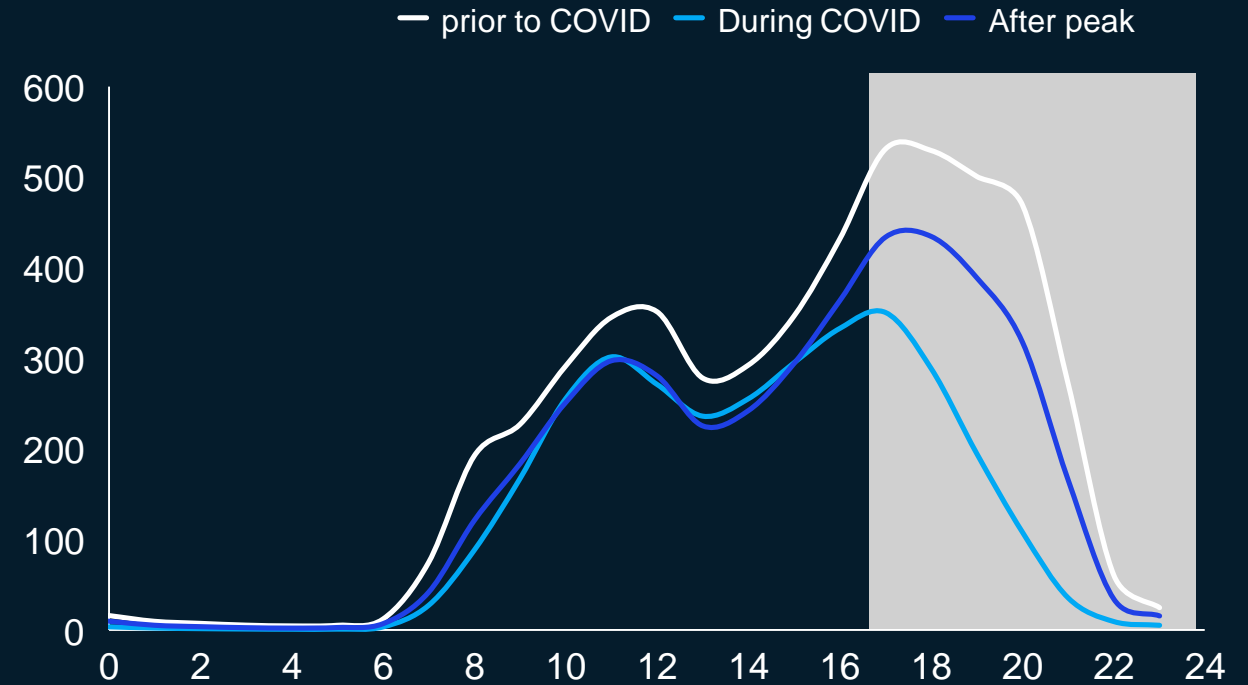
Comparably less shopping on weekend

#transactions per day, normalized



Less shopping at nighttime

transactions per day, normalized

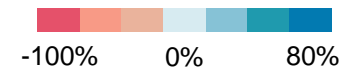


Epicer has much slower recovery rate compared to other cities (1st mon after peak)

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	-28%	-1%	-27%	8%	3%
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%



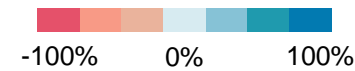
- **Epicer recovers much slower than other cities** due to store opening rate and control policy
- **Some epicenter cities show a spike of consumption in grocery channel, 64% more in supermarket than before**
- **Tier-1 cities are relatively slow on recovery compared with other cities, as re-open rate is already 90+%.**

Epicer has much slower recovery rate compared to other cities (2nd mon after peak)

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	-4%	4%	-7%	7%	1%
CVS	-24%	-6%	21%	12%	17%
Drugstores/ Para pharmacies	N.A.	N.A.	-38%	56%	94%
Food Specialized Retailer	-29%	-13%	-29%	-2%	-4%
Foodservice	N.A.	-15%	-20%	7%	-33%
Beauty Specialized Retailer	-57%	-11%	-16%	-2%	1%
Apparel	N.A.	-40%	-43%	-45%	-35%
Department Store	N.A.	-42%	-34%	-13%	-27%

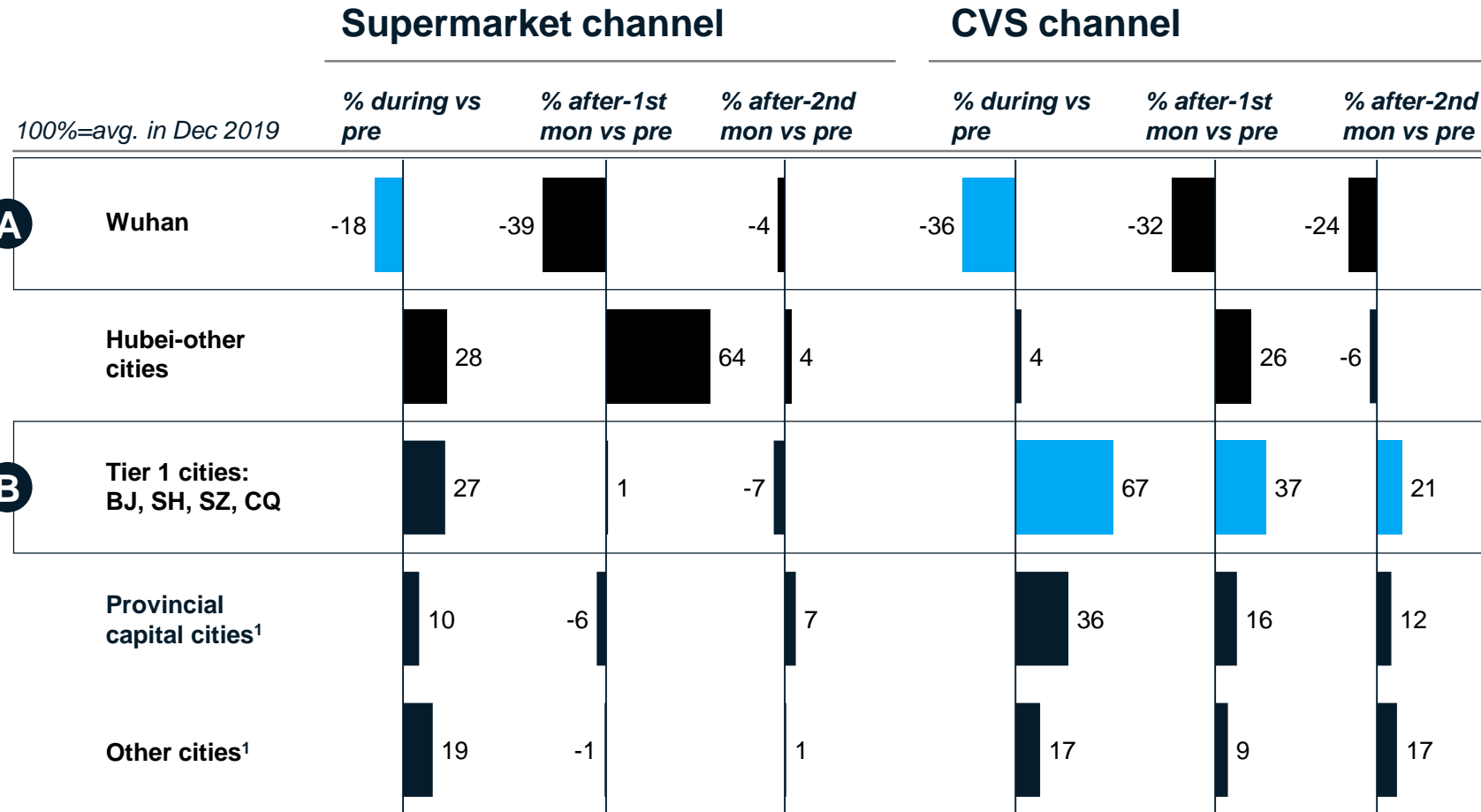


- **Epicer recovers much slower than other cities** due to long impact of COVID-19
- **Tier-1 cities are relatively slow on recovery compared with other cities**, as re-open rate is already 90+%.

Consumer in Tier 1 city shows stronger preference on CVS during and after peak

based on observation of selected cities¹

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



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



A Epic center recovery is heavily impacted by store opening schedule:

- Wuhan supermarket and CVS spending went up at the beginning the outbreak and eventually to a reduction due to lock-down duration and supply issues
- Also the substantial drop in supermarket and CVS after peak might suggest a shift to online

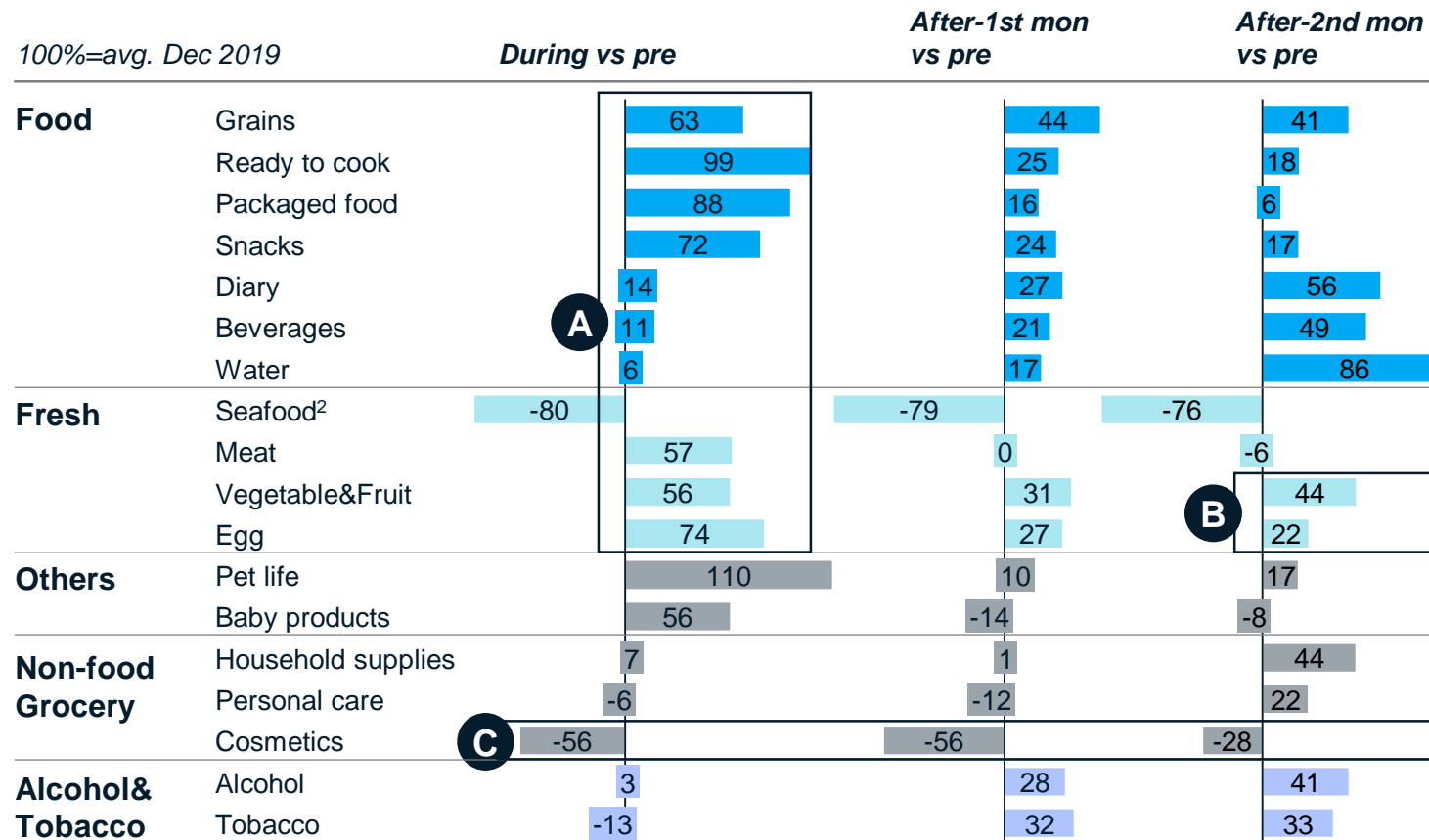
B Consumer in Tier 1 city shows stronger preference on CVS during and after peak

People run for food stock-up and now also for less essential categories

Based on grocery basket analysis, data from supermarket and CVS



Daily Consumption in value¹



Consumption shift in short term with increase on necessity; non-essential consumption picks up recovery speed later

A Food first during crisis: people stock up 60-80% more food and fresh, to prepare for staying at home during lock down, but not substantial

B Healthy trends in dairy, veggie fruit and egg as these categories went up during the outbreak and still keep 30%-40% higher after the peak

C Cosmetics has experienced a shift to on-line during and after the peak

1. Based on grocery basket analysis, data from supermarket and CVS
 2. due to the limitation of fresh seafood supply - from fishing to delivery - the seafood are still over 70% down vs before

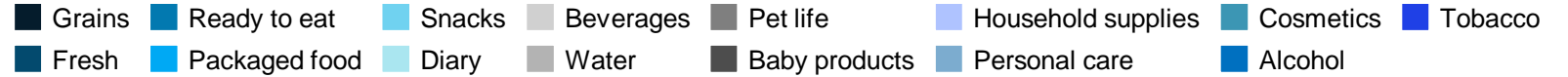
People starting to buy grains and fresh from CVS

Based on grocery basket analysis, data from supermarket and CVS

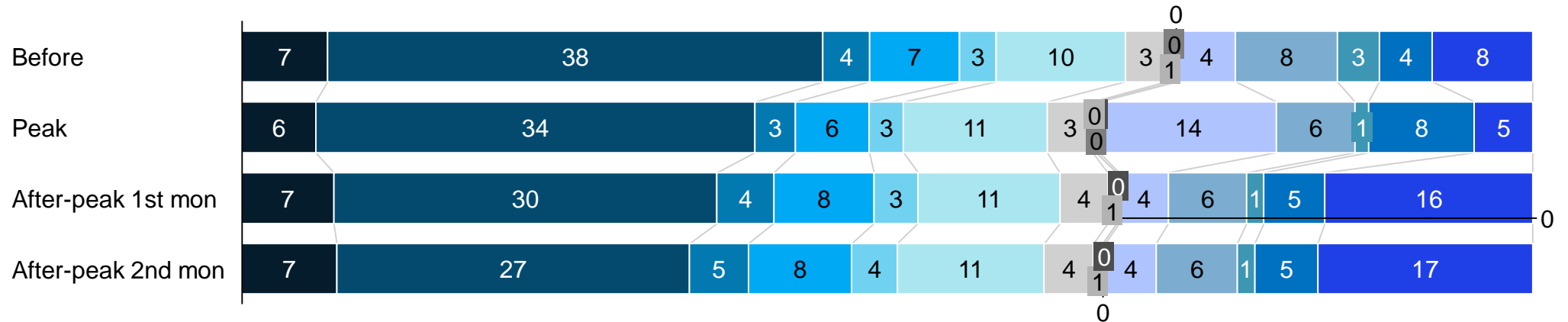
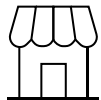


Category % in Supermarket and CVS

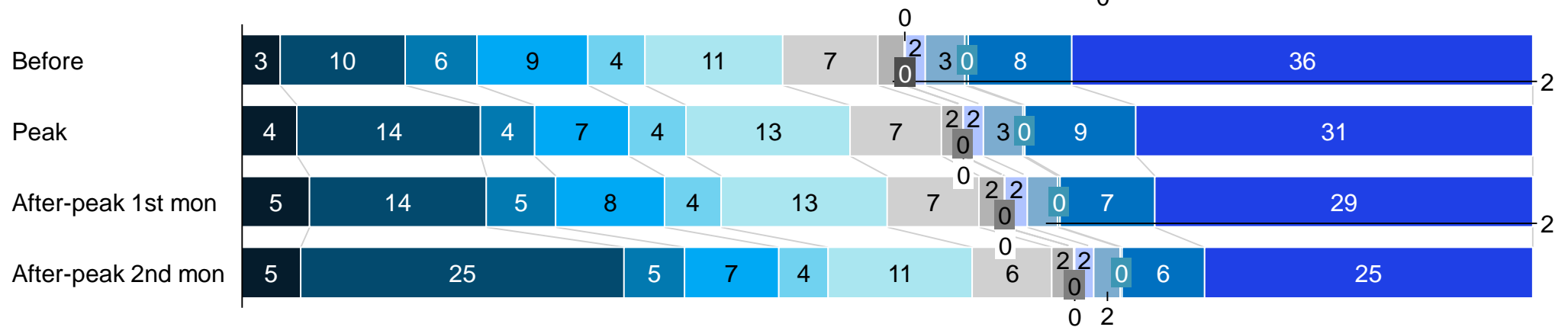
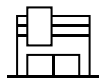
100%=Total consumption in the time period



Supermarket channel



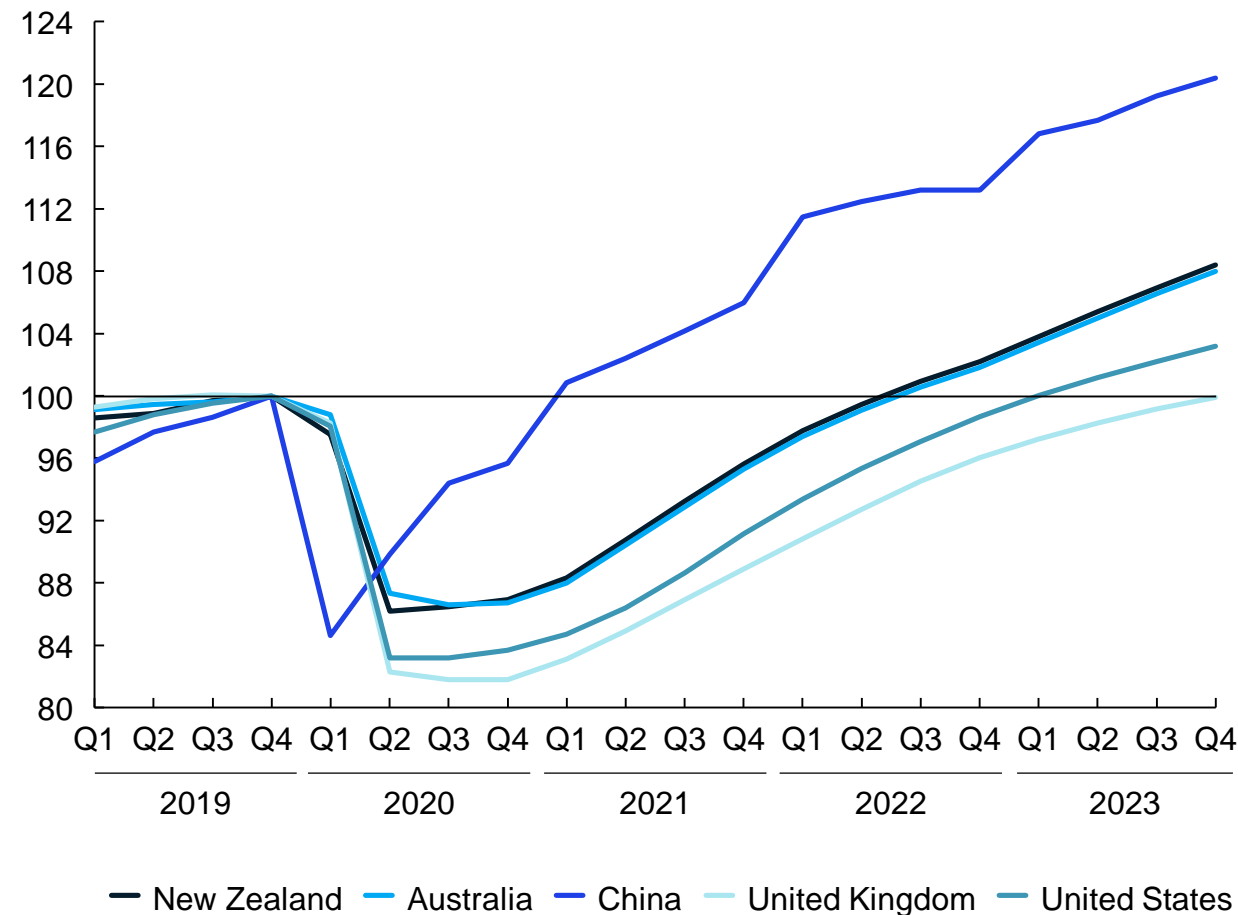
CVS channel



COVID impact on consumers

COVID-19 will bring a seismic change, as private consumption in Australia will decline by ~10% in 2020

Private consumption, indexed (2019 Q4=100)

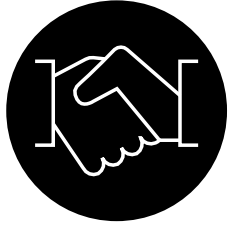


	Private Consumption Drop 2019Q4-2020Q2 % Change	2020 Private Consumption on Growth % Change	Return to Pre-Crisis Level Quarter (+/- 1Q)
Australia	-12.7%	-9.7%	2022 Q3
NZ	-13.8%	-10.1%	2022 Q3
China	-10.2%	-6.9%	2021 Q1
UK	-17.7%	-13.8%	2024 Q1
USA	-16.8%	-12.1%	2023 Q1

Note: Seasonally adjusted by Oxford Economics

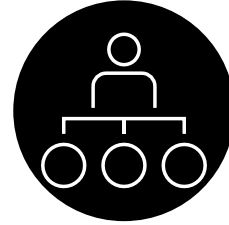
Source: McKinsey analysis, in partnership with Oxford Economics

3 underlying attitudinal and emotional changes as a result of COVID-19



Committing

People are making new and renewed commitments to their values and goals (e.g., work, family) which will shape their life choices moving forward



Conscious decision making

People are making more conscious decisions about who they spend time with, where they go, what they do, how they do it, and what they buy – based on value and risk

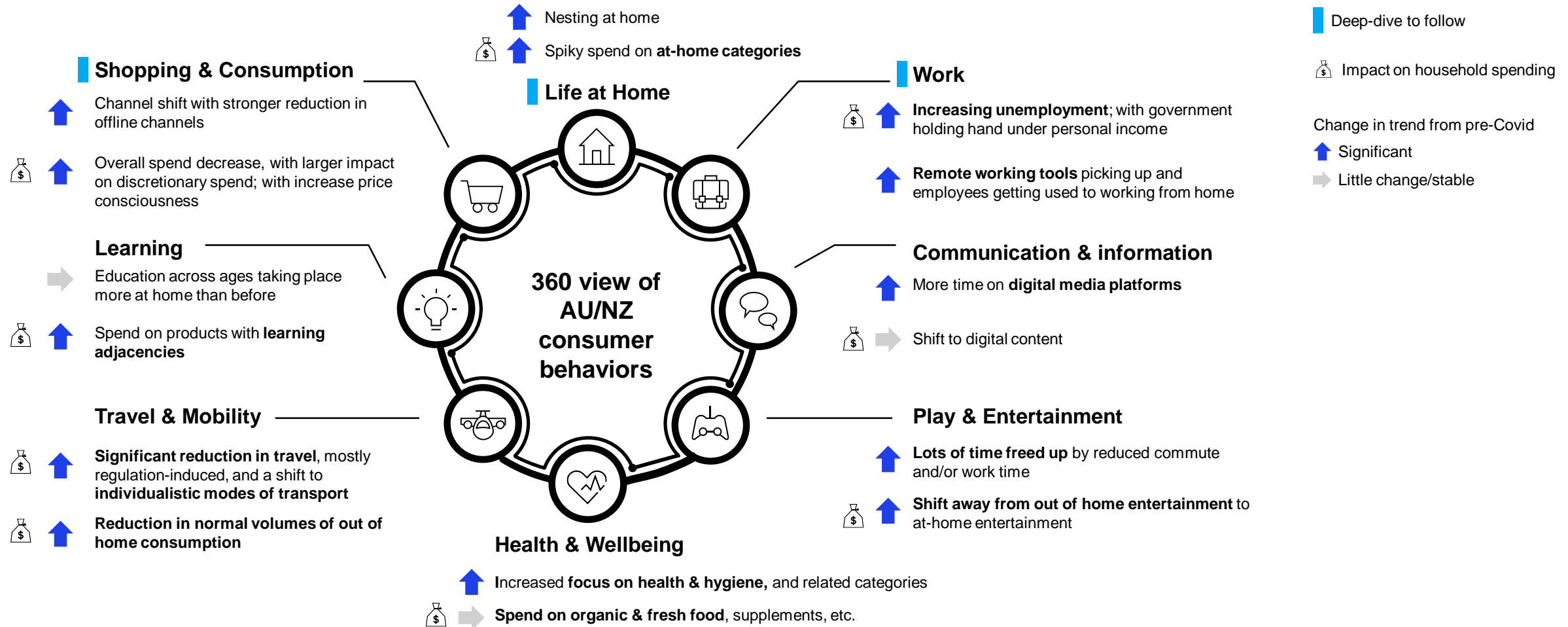


Control seeking

People are looking for ways to assert control in their life wherever they can (e.g. diet, spending, environment) in order to feel safe and comfortable and safeguard their future









Leading to significant behavioural changes for the typical consumer

AUSTRALIA EXAMPLE



Some of the behaviour changes we saw in the lockdown are new, while some pre-existing trends have been accelerated

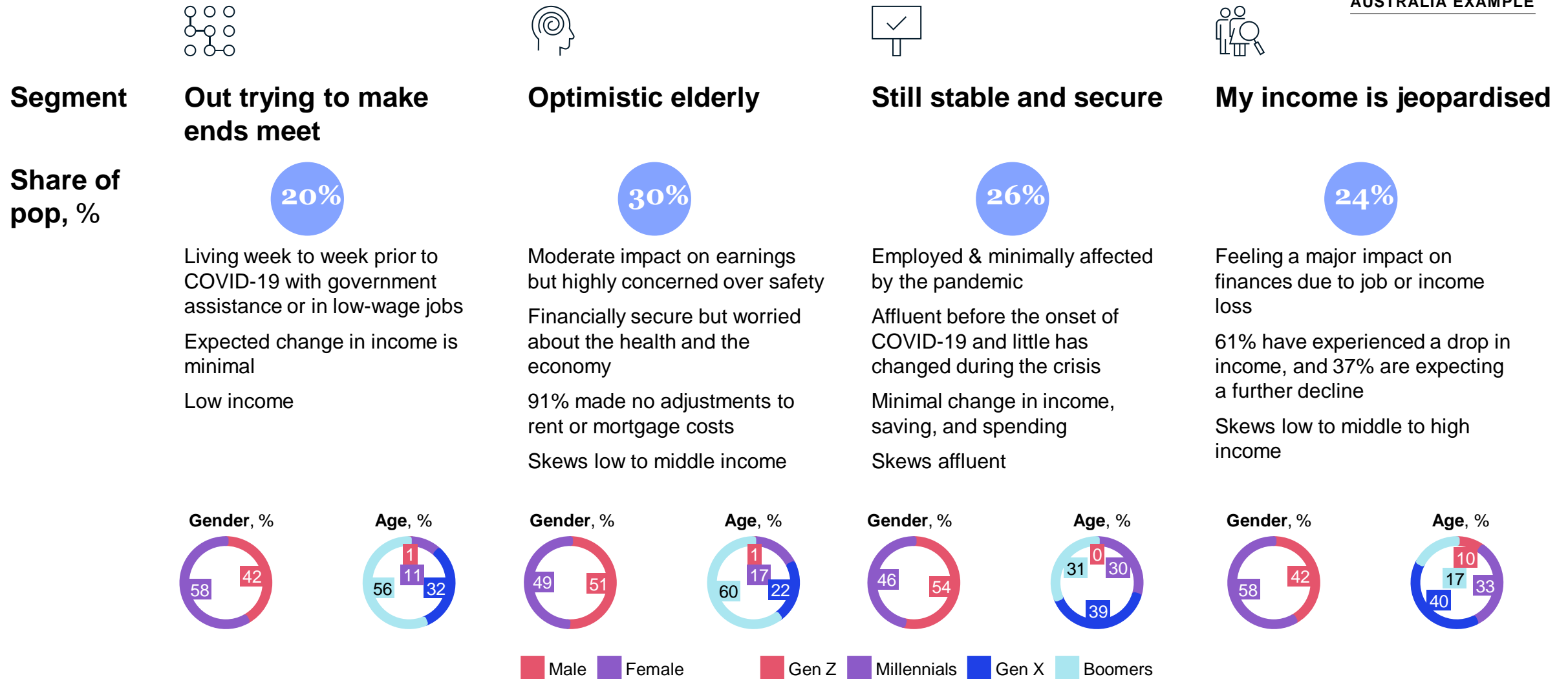
AUSTRALIA EXAMPLE

	 Life at home	 Shopping & consumption	 Play & entertainment	 Health & Wellbeing	 Travel & mobility	 Comm. & information	 Work	 Learning
	<ul style="list-style-type: none"> ■ New trend ■ Acceleration ■ Discontinuity <p>Life at home Home is recast as the new coffee shop, restaurant and scene of entertainment with unprecedented increase in home activities</p>	<p>Shopping & consumption Shopping & consumption has witnessed a complete redistribution within the share of wallet</p>	<p>Play & entertainment Play & entertainment has moved online and whilst seeing an increase in share of time, it has decreased in share of wallet</p>	<p>Health & Wellbeing Health & Wellbeing has become a priority whilst moving digital</p>	<p>Travel & mobility Consumers are staying put at home while foot-fall is moving from city centers to residential areas</p>	<p>Comm. & information Communication and media is shifting to ad-light space which impacts ability to market</p>	<p>Work Work has become largely remote while offices have become digital</p>	<p>Learning Learning and studying has become virtual with new tools being adopted</p>
Decline in consumption		<ul style="list-style-type: none"> ■ Trading down¹ ■ Larger basket, reduced frequency ■ Decline in discretionary spend 			<ul style="list-style-type: none"> ■ Reduction in tourist spend & travel retail 		<ul style="list-style-type: none"> ■ Rise of unemployment 	
Shake-up of preferences		<ul style="list-style-type: none"> ■ Preference for trusted brands ■ Increase in grocery 		<ul style="list-style-type: none"> ■ Focus on health & hygiene ■ Acceleration of organic, natural, fresh 	<ul style="list-style-type: none"> ■ Increase in domestic tourism ■ Avoidance of public transport ■ Reduction in on-the-go consump. 			<ul style="list-style-type: none"> ■ Increased spending on learning adjacencies
Digital acceleration	<ul style="list-style-type: none"> ■ Nesting at home ■ Surge in online ■ Decline in out of home consumption 	<ul style="list-style-type: none"> ■ Surge of e-commerce 	<ul style="list-style-type: none"> ■ Digital entertainment ■ Entertainment channel shift (e.g. cinema to streaming) ■ Additional play time 	<ul style="list-style-type: none"> ■ Fitness on demand at-scale ■ Rise of tele-medicine 		<ul style="list-style-type: none"> ■ Shift in media and info consumption¹ 	<ul style="list-style-type: none"> ■ Remote working 	<ul style="list-style-type: none"> ■ Rise of remote learning

The impact is not the same for everyone

Consumer segment profiles

AUSTRALIA EXAMPLE



Optimism is linked to changes in income

Net impact by category¹

AUSTRALIA EXAMPLE



Out trying to make ends meet



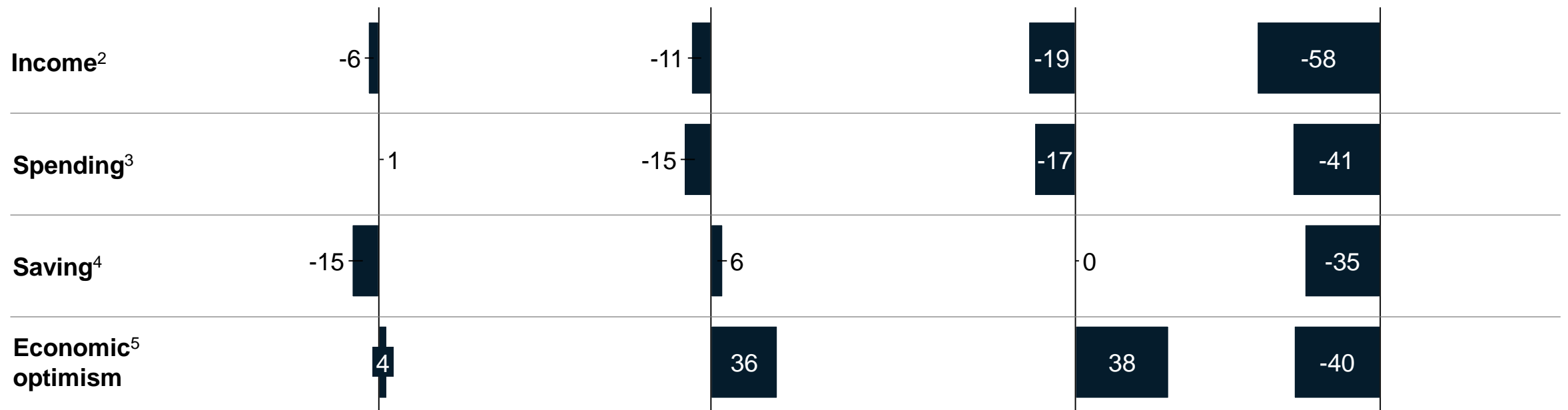
Optimistic elderly



Still stable and secure



My income is jeopardised



1. Net impact is calculated by subtracting the percentage of respondents who expected a decrease in the metric, from those who expected an increase





2. Q: How has the coronavirus (COVID-19) situation affected your household income over the past two weeks?

3. Q: How has the coronavirus (COVID-19) situation affected your household spending over the past two weeks?

4. Q: How has the coronavirus (COVID-19) situation affected the amount you can save over the past two weeks?

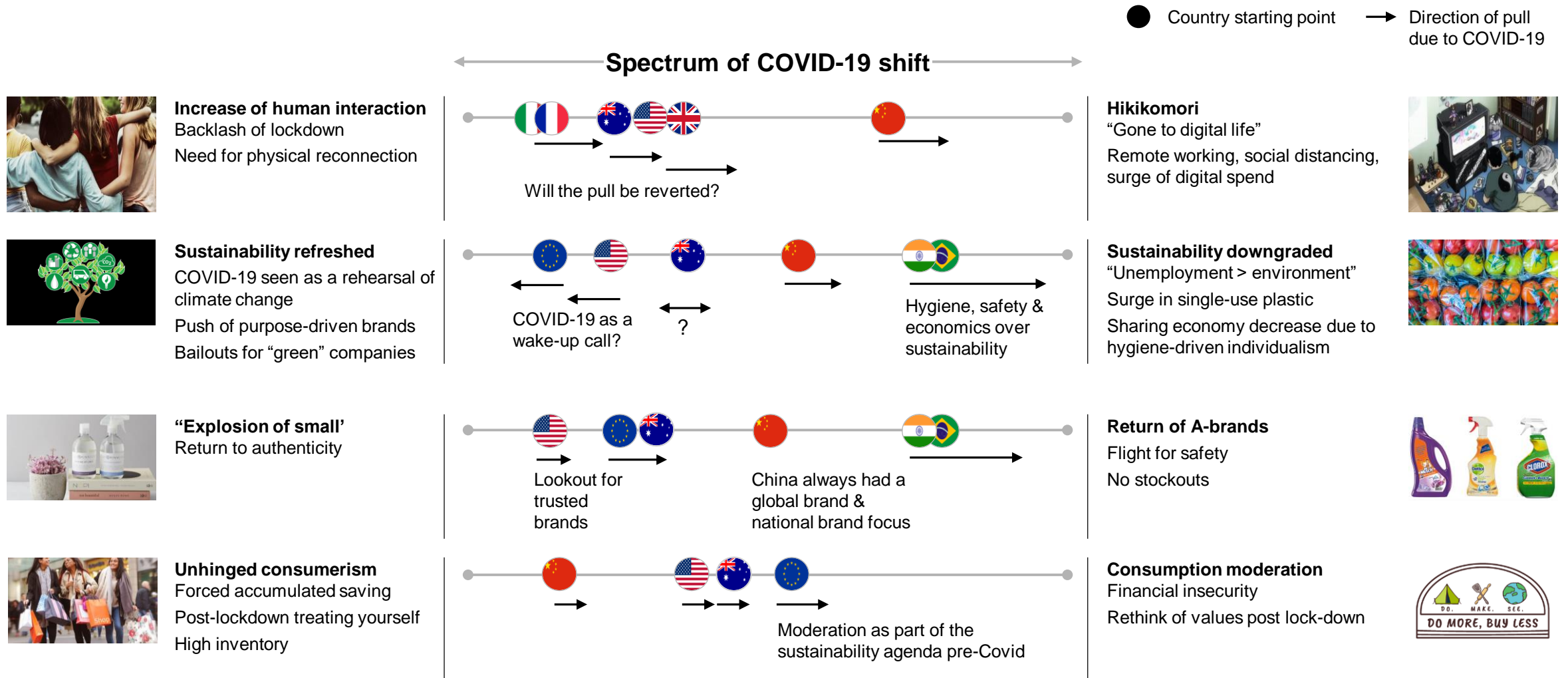
5. Q: I am optimistic about Australia's economy?

Four archetypes of country impact are emerging from COVID-19

	1 Muted impact – “bump in the road”	2 Large impact – intensified consumer pressure	3 Large impact – moderate consumer pressure	4 Moderate impact – new trajectory developments
Countries				
Characteristics	<p>Developing, high growth</p> <p>High hygiene sensitivity</p> <p>High digital penetration</p>	<p>Developed, low to moderate growth, lower social welfare protection</p> <p>Moderate hygiene sensitivity</p> <p>High digital penetration</p>	<p>Developed, low to moderate growth, high social welfare protection</p> <p>Moderate hygiene sensitivity</p> <p>Moderate digital penetration</p>	<p>Developing, moderate to high growth</p> <p>Moderate to low hygiene sensitivity</p> <p>Low digital penetration</p>
Selected highlights	<p>Smaller economic shock (emerging signs of recovery appearing) – similar shocks in recent history from SARS and regional currency crises</p> <p>Limited impact from trading down and discretionary spending decline in Next Normal</p> <p>Low to moderate impact on hygiene preferences (already high pre-COVID) and slight uplift in health awareness</p> <p>Likely slowdown of sustainability agenda; search for large national brands</p> <p>Acceleration of digital penetration from high baseline; high satisfaction enabled infra-structure and digital ‘nateness’</p>	<p>Unprecedented economic shock with long recovery outlook; lower unemployment protection and benefits</p> <p>High impact from trading down in Next Normal, influenced by discount and PL development</p> <p>High impact on hygiene preferences and uplift in health awareness – increasing emerging of ‘safe shopping’</p> <p>Likely acceleration of sustainability agenda; search for local and A-brands</p> <p>Uplift of digital penetration across activities from high baseline; high satisfaction enabled by infrastructure and online channel development</p>	<p>Unprecedented economic shock with long recovery outlook; larger government support</p> <p>Moderate impact from trading down in Next Normal (less developed compared to US / UK)</p> <p>High impact on hygiene preferences and uplift in health awareness – increasing emerging of ‘safe shopping’</p> <p>Acceleration of sustainability agenda and awareness; search for local and A-brands</p> <p>Uplift of digital penetration across most activities; mixed satisfaction enabled by differences in infrastructure, service quality and channel development</p>	<p>Moderate economic shock with mixed impact (large informal markets and people outside of global consuming class)</p> <p>High impact on hygiene preferences and health awareness – online and safe shopping trajectory uplift</p> <p>Likely reversal of sustainability agenda giving way for economic certainty; search for large and global A-brands</p> <p>Increasing digital trajectory from lower baseline with longer outlook for widespread penetration</p>

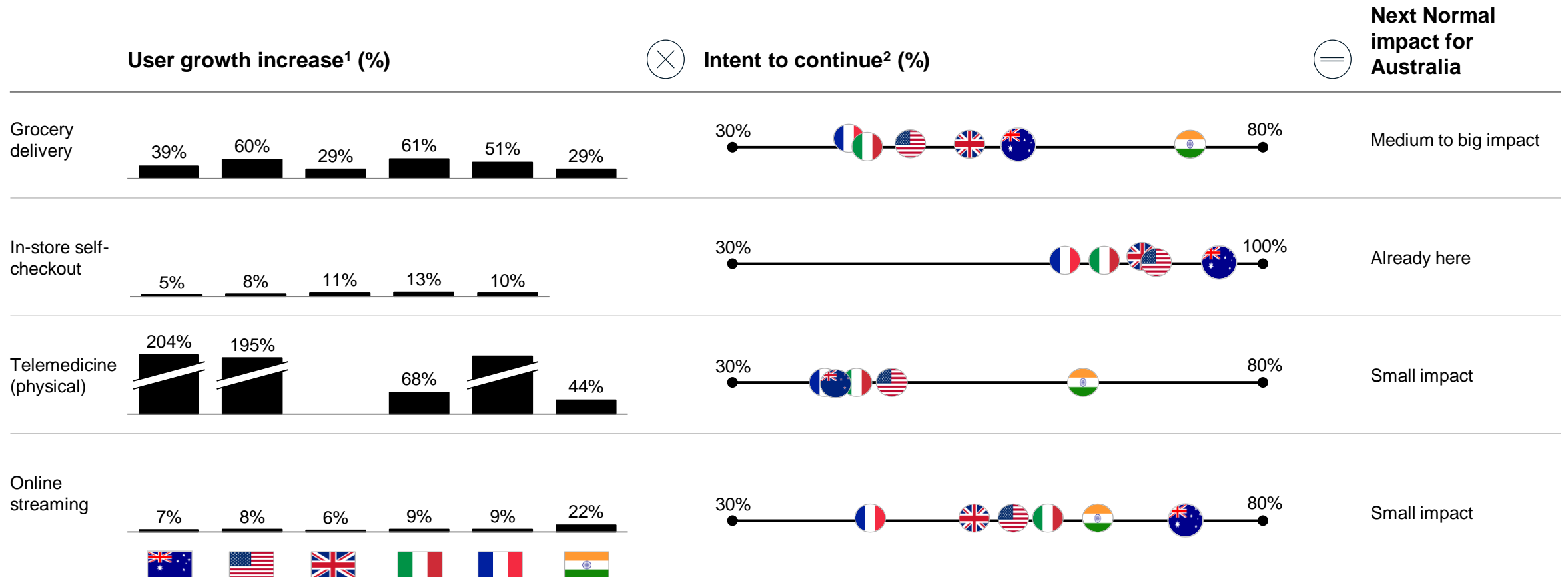
Value-driven behaviour changes could fall on the either end and the pull and magnitude will depend on the country starting points

Conceptual



User experience drives ‘Next Normal’ stickiness, with service quality and infrastructure being key differentiators between countries

Next Normal will be influenced by changes in behavior and user satisfaction

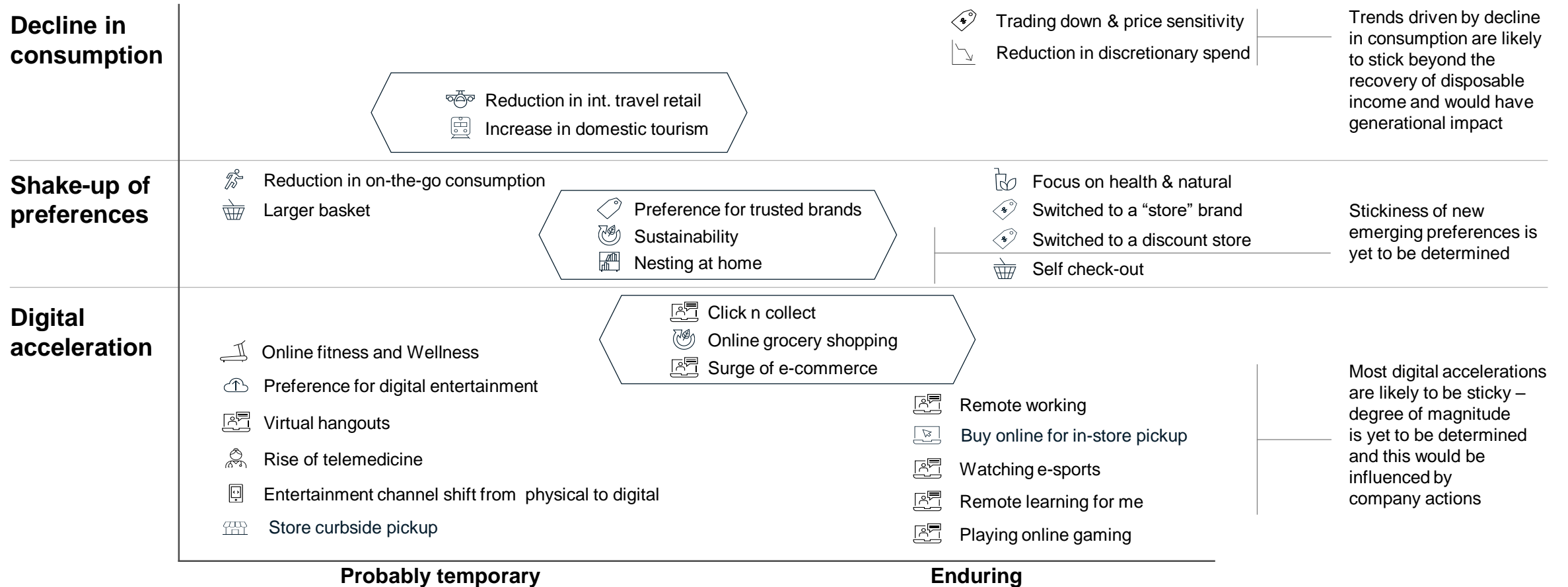


¹ User growth is calculated as % of respondents who replied that they are new users over % of respondents who replied that they were using the product/service pre-COVID (using more, using the same or using less).

² Q: Compared to now, will you do or use the following more, less, or not at all, once the coronavirus (COVID-19) situation has subsided? Possible answers: “will stop this”; “will reduce this”; “will keep doing what I am doing now”; “will increase this.”;

Our first hypotheses of which behavior changes could stick

◻ Jury's out



Implications for CPG

What are the known knowns?

Huge

Macro-economic disruption on a scale not seen since our grandparents

Acceleration

By and large, radical acceleration of existing trends, and amplification of existing strengths (and weaknesses)

Multi-stage

It will take a long time to play out and will evolve in stages with false dawns along the way

Uncertainty

As one uncertainty resolves, another will replace it—deep systemic uncertainty is here for a while

Portal to new

On the other side of the long dark tunnel we will come out in a different world

New way to operate

Changes to strategy

More force and speed

Playing for a new end-game

Scenarios not forecasts

Hedged portfolio approach

Dynamic adaptation

No change: big moves!

Changes to budget and planning

Differentiated approaches to Bus

The quarter is the new year

Base budget plus flex

Triggered release/gates

Assumptions budget

No change: solve for resource allocation

Won't get there on autopilot

Autopilot



Fixed destination

Set the controls in advance

Long range forecasts

Passive monitoring—manage to deviation

Hide the details

Emergency flying



Multiple potential destinations/re-routing

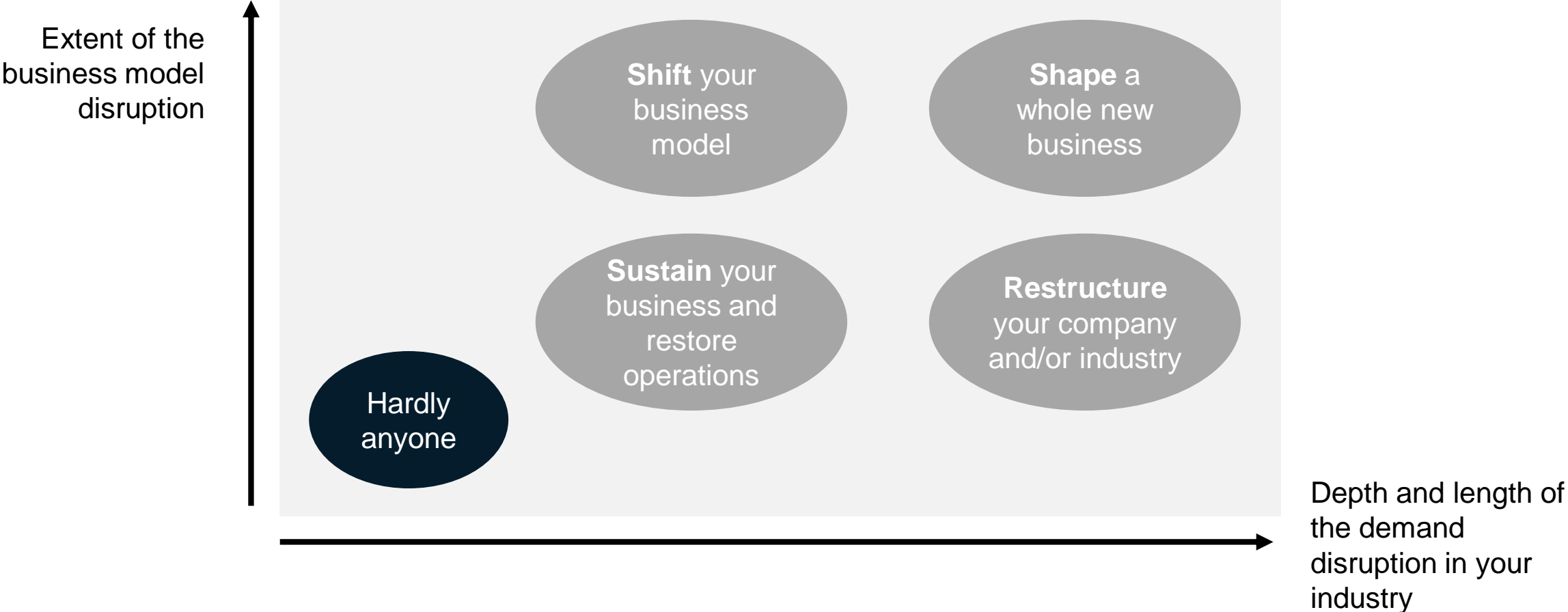
Real time controls

Short interval loops

Continual tracking to live forecasts

Fingers on every dial

What is your 'new normal'?



Future is NOW –what CPGs do now will shape the Next Normal

Early view on implications for CPGs

Rethink the core

Rethink business model and digital engagement: spot shifts in consumption patterns and lead loyalty changes

Consider M&A options: assess ability to consolidate or expand product or capabilities inorganically

Rethink products & new product development

Revise growth drivers in product portfolio: .e.g., Occasion, Product, Channel and Price

Adapt formats to new needs: polarization in pack size (large and single packs) and hygiene certainty (include health/hygiene/safety attributes into products)

Consider ability to enter into private label partnerships (where applicable)

Transform channels/ stores

Review retailer segmentation in light of changing environment: Decreasing footfall in previously-dense white collar professional areas and tourist-heavy cities, loyalty shifts, challenged retail channels – cinemas for food & drink sakes or gyms for sports nutrition

Accelerate e-commerce: Set-up/scale-up the Direct-to-Consumer channel and deepen relationships with third party e-comm partners

Reinvent marketing

Stay relevant across multiple touchpoints (brand.com, platforms, e-retailers, own stores, multi-brand stores)

Allocate resources in line with journey shifts, e.g., increase digital engagement (social, influencers D2C) away from OOH, print, trade marketing

Win in loyalty shifts: ensure first-class CRM system, foster trust through communication and incentivize first-time shoppers



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