

Future of Asia Podcast

# The four big shifts in food retail in Asia due to the COVID-19 crisis

How should retailers respond to Asian consumers' changing behaviors and rethink their businesses in the wake of COVID-19?



**How has COVID-19 affected** the retail shopping behaviours, spending, and expectations of consumers in Asia? In this episode, we discuss the four big shifts that require food retailers to act—and in some cases, accelerate the changes they have already made in response to the crisis. Reimagining their businesses will better equip food retailers to provide employment opportunities to people who are currently out of work, reshape their industry ecosystem, and work closely with business partners on how to operate in a next normal. For more conversations on Future of Asia, subscribe to our podcast here.

**Oliver Tonby:** You are listening to the *Future of Asia Podcasts* by McKinsey and Company. I am Oliver Tonby, your host and Chairman of McKinsey Asia. In this series we feature leaders from across the region to discuss the forces, the opportunities, and the challenges that are shaping the future of Asia.

Welcome everyone. You are listening to the *Future of Asia Podcast* series. This is Oliver Tonby speaking. Today we're going to be talking about reimagining food retail in Asia after COVID-19. I am joined today by Dymfke Kuijpers, she's a Senior Partner out of our Singapore office, and she leads our global grocery service line. I'm also joined by Simon Wintels, he's a partner in the Singapore office, and he leads our retail and consumer goods practice there. So I'm going to warm up a little bit before we get into food retail. Dymfke, I know that you have five children. Can you tell us how has it been to do home-schooling for the last several months?

**Dymfke Kuijpers:** It's been highly interesting. I must admit that my respect for teachers has quadrupled over the last few months. I think the most fun part of it is that I have my middle son permanently with me in my office, and then the managing the mute button when you need to tell him to get his act together and to get doing stuff and your team's still on, has not always gone fluently. So, it's been interesting for teams who react like, "What? Yes, we'll get going."

**Oliver Tonby:** And Simon, what about you? Two young children at home, how does this work for you?

**Simon Wintels:** It's been similar to Dymfke. I've managed to really become an expert at controlling the mute button, especially during lunch hours when the kids are downstairs and half of the time, love what they get for lunch and half of the time they don't. And that's very noticeable.

**Oliver Tonby:** And, can I ask both of you, if you look back over the last few months what has surprised you most? Dymfke.

**Dymfke Kuijpers:** Yeah, so for me what has surprised me most is really not so much the shift in consumer behavior we saw, but the speed by which. And to use a phrase one of our colleagues used, it's really decades in days. And I'll give you one example. The increase in e-commerce sales in the U.S. in eight weeks has been as big as in 10 years prior. So it's truly decades in days.

**Oliver Tonby:** Yeah. The speed of what we're seeing, the speed of the shift. Simon?

**Simon Wintels:** Yeah, very similar in how some behavior has changed very rapidly. People that never used online for their grocery shopping, people that have expressed a real sense of taking care of their body, their immunity, their health, we've never seen numbers this high and this fast, especially in the food retail industry.

**Oliver Tonby:** I understand. So, let's start digging in, and how is COVID-19 affecting people's behaviors, their spending, their expectations? Dymfke, why don't you take the first pass at that?

**Dymfke Kuijpers:** Yeah, sure, Oliver. So we see four shifts and they're fairly consistent across countries, and we did research under 5,000 consumers among seven Asian countries. The difference by which differs, but they're basically four. So the first one is really what we already were discussing, this

shift to online. There's been a massive surge of online shopping.

Second shift, the shift to value as people's livelihoods and financial situations get impacted, that is a tough one, and that people that are facing on how they spend.

The third one is around health, safety, and local. And it's interesting to see how even today people are actually afraid, up to 20 to 40 percent of our population, to go shopping because people are afraid for their own personal health.

And then finally, COVID-19 has also initiated a real shock to loyalty because either you were on stock or you were not. And if you were not stock, you get out of people's loyalty behavior. So there were four real big shifts.

**Oliver Tonby:** Interesting. Let's dig in to the first one you mentioned was the shift to online. So expand on that a little bit, if you don't mind.

**Dymfke Kuijpers:** Yeah. So what's fascinating is that during, obviously depending on the country, the sophistication of retailers is very different online, but even in countries like Indonesia, there was a 10 percent plus uplift in people wanting to go online, even [if] the infrastructure wasn't necessarily existing. And it went as high as in China, where 50 percent of Chinese consumers who hadn't purchased food grocery online before, now did and will continue to do so. And you see a real lingering shift even days after, and weeks after by now, since the countries are opening up again, particularly in China and Korea.

**Simon Wintels:** Yeah. And if I may, so there's been an increase in online, but the overall food grocery purchases is also up. And that is part by stores being closed, but it's also part because the behavior has shifted away from food service, restaurants. People are eating out less and less, and cook more themselves at home. So those two shifts both have contributed, really, to an acceleration of online.

**Oliver Tonby:** And if we stay on this topic for a while, do you expect this to last after we get back to the next normal, so to speak?

**Dymfke Kuijpers:** Yeah, I do. I think if I look now at China as an example, I think we can probably say is, despite Beijing locking up a bit again this weekend, most food service players are back open. Still though, traffic to those outlets is only back at 70 percent, give or take prior to COVID-19. So while 95 percent of the outlets are open again, consumers don't come back. And if you ask them, that's not just because they're reducing capacity of seating and practicing safe distancing, it's really because consumers prefer to order in home food delivery and cook at home, to Simon's point.

**Oliver Tonby:** I understand. So one big shift is the shift to online. I think the second area you mentioned was the shift to value, if I understood what you're saying correctly. Simon, would you care to elaborate about that?

**Simon Wintels:** Yeah, sure. Happy to. So this COVID-19 is first and foremost, very much a humanitarian and a health crisis. But the after effects of this are likely to be significant to people's incomes. So when we asked the thousands of consumers across Asia-Pacific how they think about COVID-19 and how that impacts their income, the vast majority expects significant difficulty in making ends meet. And as a result, they have indicated that they are significantly going to change their spending behavior. And you see that specifically in discretionary spending, so spending on non-essential items.

So you see a relatively significant drop across countries in discretionary spending, but also in essential spending. So you see people indicating that they more and more care about what they're getting for their money's worth. So the phrase value for money, and affordability will become more and more relevant in the weeks, months and years to come.

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**Oliver Tonby:** Do you see any difference between countries here?

**Simon Wintels:** You do, I think in the composition of it. So if you look at the different social demographic pyramids across the different countries, and the income that different countries have, you will see a difference in how some of these effects play out. So, especially for our food retailers that are wondering, “Will people come back to my store, or will people go back to wet markets, or will they do more online?” That behavior very much depends on the infrastructure, as well as the social demographic construct of the country. So yes, there will be differences in how it plays out, but I think the actual emotion and the needs to reduce spending and the way that people spend—that’s relatively consistent. We do see that consistently across countries.

**Oliver Tonby:** I understand. Dymfke, you were saying something?

**Dymfke Kuijpers:** Yeah. I think what will be interesting to watch specifically for Asia in this context is if you look at the previous crisis, typically, private label increased. So retailers own brands, and that’s not been such a big thing yet in most of Asian

countries. Some countries it is there, but it’s not that big. And what’s interesting in our conversations with retailers these days is that there’s really a real [think] through about how can we offer this private label? Should we do more of this? How are we expanding? So that will be interesting to follow, to what extent, that takes off as a way to help people fulfil more value for their customers.

**Oliver Tonby:** Asia’s standing in the world has changed. And it’s clear that where the focus once was on how quickly the region would rise, the reality is now all about how Asia will lead. Keep listening to the *Future of Asia Podcast*.

Let’s turn to area number three, I think you said health, safety, and increase in local preference. What does this mean? I don’t know which one of you wants to take that one first.

**Dymfke Kuijpers:** Yeah, look I’m happy to take it. It’s a bit of a mixed bag if we put in three things. And it somehow exemplifies the somewhat unease that consumers have with their current lifestyles and how they deal with it. And there are three different elements to it. One is the actual feel of physical safety and of going out. So depending on

the country, 20 to 40 percent of consumers really [are] scared to go out of the house to go grocery shopping. So that's one part and that's lingering.

I think the second part to this is around real wellness and people thinking through what they eat, what their diets look like, whether they exercise, whether it strengthens their immunity, and how much "fresh" they consume. And to my personal big surprise, up to two thirds, three quarters, of Asian populations actually say to be watching their diets and thinking through exercising and expect to continue to do so. Even in countries that historically had way less of a focus on exercising and [health] and nutrition. So I think that's the second part of it.

And then the final part is around local brands. Some Asian countries that were very much focused on foreign brands for quality perception reasons, like China. And we actually see now there is a bit of a shift back from that. So there's actually quite a big trust in local brands and things that people know, [it] may also partly be due [to] the supply chain being in order for some of the local products and less so from some of the foreign products. So people that felt less of the disruption, but that's to be seen how that pans out. But there's actually quite some loyalty toward more of the local Asian players from that perspective.

**Oliver Tonby:** Got it. Let's shift to the fourth topic that you mentioned, which was loyalty. Simon.

**Simon Wintels:** Yeah, so the question here is how much of this will be lingering and how much will be reset after stores reopen. But what we've seen over the past months is that as a result of measures, where people were confined to their homes and shopping was restricted, people have changed where they shop. So the primary location that fulfils the need for that grocery shop has changed, up to 70 percent in some countries, but on average between 20 and 40 percent. And we see that for stores and we see it for brands. And for stores it has been driven by the actual location

of the store. And for brands, it has been driven by availability of the brands in the store.

Now, the real question is if stores reopen again, will people go back to their old shop or are they actually happy with where they started shopping during COVID-19? And we see a significant amount of people in some countries, up to 30 percent, say, "I'm actually very happy with my new choice of store and I might stay there."

**Oliver Tonby:** Understand. Dymfke, would you like to add on this?

**Dymfke Kuijpers:** No, I think it's very much true, and what's interesting to see is that some of the retailers really have profited. So if you look, for instance, in some of the retailers of China, those who were able to offer both online and offline their goods, they've actually seen surges, not just of sales, but also profits that are anywhere close to 40 percent, then huge share of market share increase. For some other place[s], particularly those that had inner city train station locations, close to business districts that were closed down, have suffered tremendously. So it's really a very granular shift depending on what stores and what channels you had to see how you're faring, if you will.

**Oliver Tonby:** Understand. So what I've heard so far in terms what are some of these big shifts that you see when it comes to customer behaviors are, number one, a big shift, acceleration to online, a further shift to increased importance of value for money. I heard you talking about the importance of personal health, of safety when you're shopping, of increased trust in local brands. And finally, potentially quite big shifts in loyalty that the consumers have to different retailers.

Now, if you look at all of this, this is kind of a lot of change happening at the same time for retailers. So before we talk about what retailers actually do, how do they respond, can I just ask you when you speak to CEOs of large retailers, what's their state of mind? What are they thinking about?

**Dymfke Kuijpers:** I think all of them had that as their primary concern, as Simon mentioned, preserving lives. I mean, they are incredibly obsessed about their customers and the health and well-being of their employees. And frankly, all of them that I spoke to have done a really good job for an industry that's known about execution, and that continues to be high on their mind.

I think the second thing that's high on their mind is how do they not just manage the crisis, but also prepare beyond? Because all of them see this dichotomy of currently there's a surge in sales because people cannot go out. At the same time in the longer term, people's livelihoods are threatened. And how do we come up with the right value offer, how do we adjust our channels as well, how do we also build more of a future? I think that dichotomy is very much on their minds.

**Oliver Tonby:** I understand. And against that backdrop, now let's shift and start talking about what should or could retailers do going forward? Who wants to kick us off on that question?

**Simon Wintels:** I think that there's many things that we're having discussions about, but let me just pick one, which I think has always been on the minds of retailers and it has to do with how technology allows me to do a better job. And so, Dymfke mentioned years in days. Things that took decades actually happened in a few weeks or in a few days. That's also been the case for our retailers. But the real question is, how do I keep some of this up? So how do I use technology in a better way to keep up high share of my sales in the e-commerce channel? So how do I optimize my picking? How do I optimize my delivery? How do I optimize my website and my offer, to make sure that I can sustain a higher level of either pickup in store or delivery of orders.

But how also do I use technology to change my store? So how do I ensure fewer touches between people in my stores? How do I help, for example, cashless payments? Seamless checkouts? How do I do automated cleaning of my stores? So the role

of technology across the steps in the value chain for food retailers is one of the things that our clients are thinking through, not just doing it, but doing it faster.

**Oliver Tonby:** Understand. Dymfke?

**Dymfke Kuijpers:** Yeah. I totally agree with that. I think one of the other things is coming back to this point of value and it goes both ways, both for the retailer and for the customer. Because while the sales have increased a lot, actually the cost of their sales has increased as well. Because the actual safety measures that need to be taken, the channel shift where online is typically more unprofitable than offline. So there's a real value notion on how do we save money to reinvest back in our customers who need it so much in these times? Particularly on slightly less essential items, but also increasingly essentials as we're coming out of this first, let's say, hoarding phase. And I think retailers are also looking into that sense of to what extent can I use technology to actually take us to a next cost level that I can reinvest back to the customer?

**Oliver Tonby:** I understand. Now, I heard you talking about technology, but this also must be wreaking havoc on the supply chains behind retailers. So tell me a little bit about what's happening there and how the retailers should be thinking about supply chain.

**Dymfke Kuijpers:** Yeah, so what's fascinating about supply chain is that retailers are really good executors, and they use fantastic algorithms to plan their supply chain. And to cut a long story short, it's something around, and all data scientists are going to disagree with me, but it's historic sales plus or minus the weather and plus a lot of festive activities and promotions. And the problem of that is that last year's sales was zero indication of today's sales in COVID-19 time. So actually quite a lot of retailers have had to kind of unpark their algorithms and gone to a daily S&OP cycle, as the CPG companies used to do on a weekly basis to much more radically adjust, "Okay, what are we seeing in terms of demand? How do we course correct?" And they're two interesting challenges

for the warehouse working with the different planning than the store manager.

So it's been a wake-up call for even some of our more sophisticated retailers to rethink through how do we run this supply chain truly end to end to make it flexible and resilient to quick shifts in demands? Because week one, nobody was buying beer, they were just buying fruits, particularly kiwis. Week three, they were super bored, they needed the beer and chips. So it's not the same thing all the time.

**Simon Wintels:** And just to add on to that, I think thinking ahead as well, and the role that food retailers play in the broader share of stomach or whatever you want to call it, new categories, ready-to-eat foods, ready-to-cook food, require potentially different value chains, a little bit more local rather than imported. So there [are] many things coming for not just the how do I manage my daily or weekly supply chain and keeping the stores stocked, but also where am I going to source my products from?

And do I need new sources of supply because I'm changing my assortment because I see new opportunities for ready-to-cook or ready-to-eat meals, for example.

**Oliver Tonby:** I understand. Can we come back to this point around shifting loyalty? What does a retailer do in the face of that?

**Dymfke Kuijpers:** So the more sophisticated ones have actually done quite some cool stuff, particularly in China, using social means to stay, during the lockdown, in contact with their customers. And the nonfood guys had it slightly more easy because there were ways to engage in physical activities and usual sports apps and yoga apps. And that particularly some of the fashion brands have been pushing. But even beer players like Tsingtao who used their sales force to then activate via WeChat some of their consumers in the store. And also on the retailer side, people that knew the economy's coming back, I have a

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—Dymfke Kuijpers

loyalty card, I have a customer database, who kind of proactively reached out to these customers to notify them on safety measures, on health and hygiene, on great offers and on price, to try to pull them back into their former stores as well.

**Oliver Tonby:** Got it. Now let's start rounding out this podcast. If you had a senior retail executive in front of you now, what would you tell her or him? What are the two or three things that we would tell her or him?

**Dymfke Kuijpers:** I'm probably going to repeat myself a bit, but I would say double down tremendously on online and digital. I think it's a real must-have in these days and it's just improved and that behavior's not going to go away. I think the second part for me related to that is expand your horizons. I think you have a bigger role to play in consumers as you're one of the few, that even though you've had a tough time, you've also had it better than, for instance, the food service industry. So what role can you play, to Simon's point, to expanding your range, but also frankly be a source of employment for some of the people that were previously working in restaurants.

You actually see that already. So there are quite a few people hired to help out on deliveries coming straight from restaurants. That will be my second part. And the third one is really reimagine your offer. What is it that you're going to bring? That's going to bring consumers exclusively to your stores because what you bring is better value for money, is more exciting, and brings back the loyalty, and plays to the needs of consumers today.

**Oliver Tonby:** Simon, what would your two, three points be?

**Simon Wintels:** This is a very difficult question Oliver, after asking Dymfke. The incremental value on top of this. I would just add one thing to technology, the role that you play in the community. And I think that's looking at a bit of a reforming or reshaping what your ecosystem looks like. So not everything you have to do yourself. There's lots of opportunities for partnership, be it in the downstream on how you deliver products to your store, but it's also in how you organize. We've seen shifts happen from years in days. So what [does] my future organization look like? The role of agile and how that plays in into how I organize. So it's partnerships, it's a more agile organization, and it's not just in what you do, but it's also in how you do it.

**Oliver Tonby:** Perfect. Thank you. Listen, we're going to round off there. Let me just say a huge thank you to Dymfke and Simon. This has been a fascinating conversation. I think I've learned that we both need kiwi and beer. It just depends on which week we're talking about, that's my big takeaway, amongst many other things.

**Simon Wintels:** Very true, very true.

**Oliver Tonby:** So listen, thank you all. And thank you for listening.

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**Oliver Tonby** is the chairman of McKinsey Asia and a senior partner in the Singapore office, where **Simon Wintels** is a partner. **Dymfke Kuijpers** is a senior partner in the Singapore office and leads McKinsey's grocery work globally.

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