

Cautiously optimistic: Chinese consumer behavior post-COVID-19

Brands are preparing for a “new normal”.

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Chinese consumers are gradually regaining their confidence as the COVID-19 crisis subsides, suggesting the majority will resume higher levels of spending in some categories over the coming months, according to McKinsey's latest survey of consumer attitudes. A significant minority, however, is less confident about the future, suggesting many consumer brands will need to work hard to get back to normal. Stronger appetite for online shopping, meanwhile, could persist as the crisis abates, albeit with variations across categories.

We interviewed around 2,500 Chinese consumers in two waves (the first between February 21 and 24

and again between March 20 and 23), enabling us to gauge consumer attitudes across eight product categories: alcohol, makeup, skincare, snacks, home cleaning, personal care, fresh food, and baby care. Still, the sentiments expressed should be viewed as directional rather than conclusive (partly because severely affected regions such as Hubei were difficult to survey) and should not be interpreted as an indication of wider economic trends.

COVID-19 shut down large parts of the economy in the early part of the year and continues to depress sentiment. However, if the recent decline in the number of daily cases persists, the slowdown in

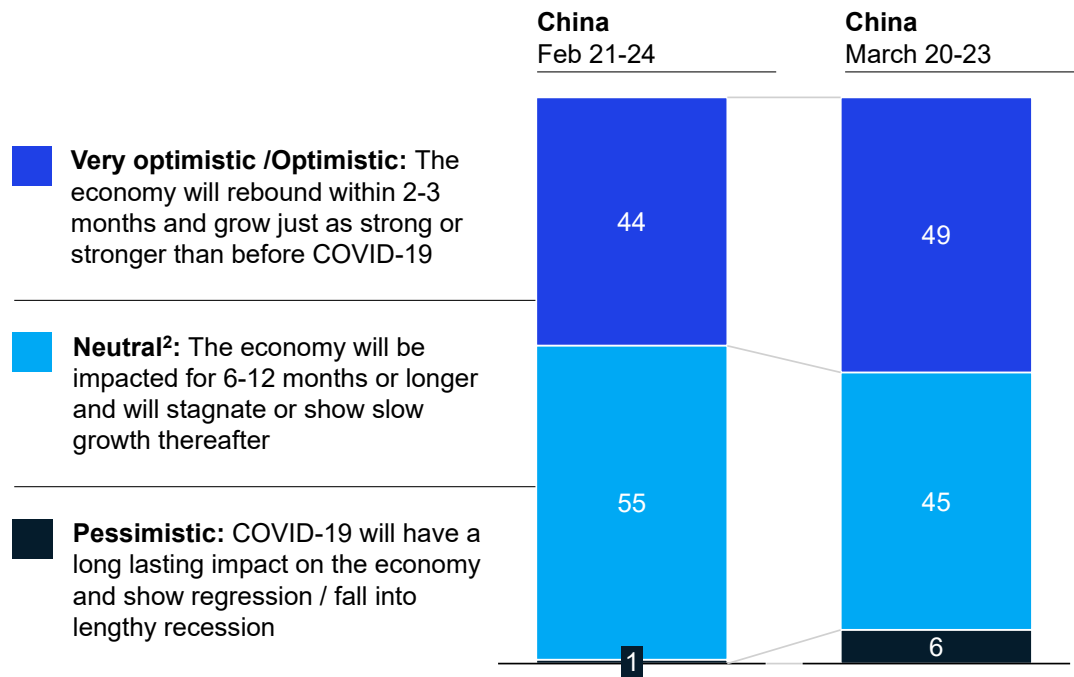
Exhibit 1

Chinese consumers are slightly more optimistic about the economy

Confidence in own country's economic conditions post-COVID-19¹

Percent of respondents

China Consumer Pulse Survey conducted Feb 21-24 & March 20-23, 2020



1. Q: How is your overall confidence level on economic conditions after the COVID-19 situation?

2. Includes consumers who are classified as 'somewhat optimistic' and 'somewhat pessimistic'

Source: McKinsey & Company M&S COVID-19 China Consumer Pulse Survey 2/21-2/24/2020 N = 1,250 including Hubei province; 3/20-2/23/2020 N = 1,250 including Hubei province Sampled and weighted to match China demographic characteristics

demand seen at the peak of the outbreak may start to dissipate. Around 50 percent of respondents to our March survey say they are optimistic that the economy may recover two to three months after the end of the outbreak (a five-percentage-point increase from the February snapshot). Respondents in higher-tier cities tend to be more positive, with around 55 percent saying they are optimistic, compared with around 40 percent in lower-tier cities.

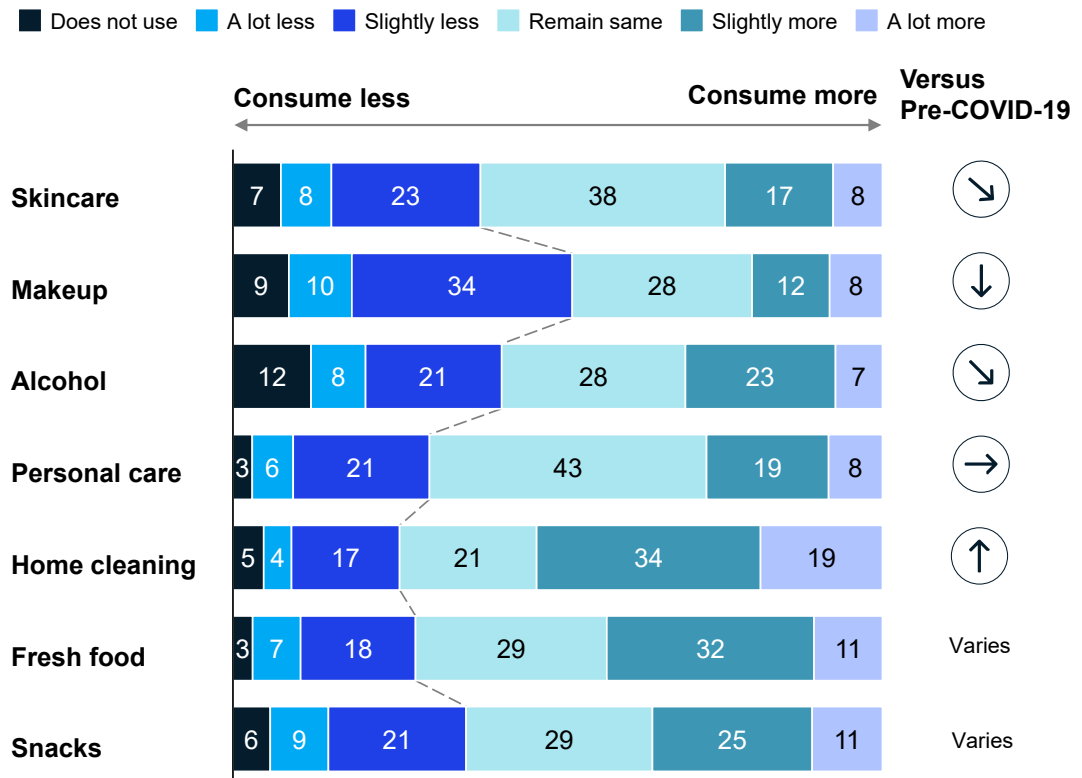
Still, in the latest survey we also see signs of increasing polarity. While more people are

optimistic, higher numbers are pessimistic. This may reflect concern over the emergence of a global pandemic and its potential impact on the economy. Some 6 percent of respondents indicate they are pessimistic about economic recovery, compared with 1 percent in February. The divergence is also manifested in consumption attitudes, with a group of potentially higher-spending customers post-crisis offset by a smaller group of more frugal consumers, who say they may cut back.

Exhibit 2

During COVID-19, consumption of discretionary categories was more heavily impacted

How has the coronavirus situation impacted your family's overall consumption in the following categories?
(% of respondents, N=1250)



Source: McKinsey & Company M&S COVID-19 China Consumer Pulse Survey 3/20-2/23/2020 N = 1,250 including Hubei province Sampled and weighted to match China demographic characteristics

Some categories suffered more, and persistent caution suggests brands will need to work harder

Most consumer brands faced headwinds during the crisis, amid widespread declines in demand, particularly in discretionary categories. The survey shows that around 30 percent of consumers used less skincare and purchased less alcohol, while more than half used less makeup. On the other hand, around 30 percent of wealthier respondents living in higher-tier cities consumed more skincare products during the crisis than before.

Asked how they expect their consumption to evolve following the crisis, the majority say they will revert to precrisis levels across most categories, with 60 to 70 percent expecting to resume normal consumption or consume slightly more, and another 10 percent saying they will consume a lot more, perhaps reflecting a degree of deferred demand. Still, between 20 and 30 percent of respondents suggest they will continue to be cautious, either consuming slightly less or, in a few cases, a lot less across consumer goods categories. Brands may wish to respond to these dynamics by stepping up marketing and promotional efforts. These may help them both in engaging with renewed demand and encouraging consumption where it is weak.

Brands reacted fast to a rise in digital engagement, shifting their focus to social, e-commerce, and O2O

Given extensive quarantine measures, consumers did more online browsing and made more online purchases during the peak period of the outbreak. According to our survey, more than 70 percent of consumers spent the same amount of time or more time browsing skincare- and beauty-related content, with Key Opinion Leaders (KOLs) the most popular form of engagement. As a result, online generated a 15-30 percentage-point incremental share of purchases across a range of categories. To respond to, and encourage, these trends, many consumer goods companies ramped up investment in social, e-commerce, and O2O.

Local brands tended to react fastest in the online

space, reflecting digital capabilities that are often more mature than those of international brands. Many leveraged their established social commerce infrastructure and social platforms, and in particular live-streaming capabilities. Mass beauty brand Perfect Diary, for example, used its more than 10,000 WeChat groups for private-domain social engagement and commerce and quickly moved offline makeup experts online. Kans and One leaf (both Chicmax Group skincare brands) invested in private-domain social commerce, with around 4,000 beauty assistants launching WeChat moments and chat-group commerce.

As local brands stepped up marketing initiatives, some international brands took a more cautious approach, aiming to balance reaction speed and brand equity. However, there were several notable initiatives. Lancôme, for example, set up an official enterprise WeChat account for its offline beauty advisors to build direct connections with consumers. Drinks multinational AB InBev invested in marketing to boost demand for at-home consumption and e-commerce.

Both Chinese and multinational brands responded effectively to the crisis, and in many cases showed they were prepared to plan for a “new normal”. Given the diverse range of approaches, however, there was little sign of the emergence of a standard formula for consumer engagement during or after a crisis event. In addition, it's probably too early to identify implications for best practice in the months ahead.

A boost to online sales post-COVID-19, but there are nuances across categories

Following significant momentum in e-commerce over recent years, Chinese consumers are likely to be even more amenable to online shopping after the outbreak, especially for categories with strong online track records, such as skincare, makeup, and personal care. Brands in these categories may see the coming period as an opportunity to build on initiatives they tried out in the early part of the year.

Before the crisis, around 30 percent of skincare and makeup sales were made online, and online volumes grew by around 70 percent annually (CAGR)

from 2016 to 2019.¹ Accelerating penetration over the recent period suggests that the move toward digital and online may continue as normality returns. With that in mind, companies may wish to consider extending and formalizing recent initiatives (many of which were makeshift during the crisis), for example by increasing their presence on social engagement and in private-domain commerce. In addition, some of the themes created during the crisis, such as at-home sports training (offered by several sports apparel brands), may continue to be valuable. This would reflect many people's plans after the outbreak to keep themselves fit and healthy.

For proven online winners, there is a relatively clear way forward. However, in categories with lower baseline penetration, such as fresh food, the picture is less clear. A transition to online could accelerate, but the spike in demand seen at the peak of the outbreak is unlikely to be sustained, the survey suggests. In addition, companies still need to overcome structural barriers to online distribution that include easy access to offline alternatives, high supply-chain costs, and a lack of standardized products.

Shifting attitudes suggest brands should respond

In addition to its effect on demand dynamics, the crisis impacted consumer attitudes to product safety, the environment, and healthy lifestyles. Already on an upward curve before the outbreak, more consumers say they want to ensure product safety after the crisis, with 66 percent agreeing or strongly agreeing that they will "spend more time" doing so. In addition, some 64 percent agree or agree strongly that they will consider products that are more environmentally friendly, and 70 percent say they will work to boost their physical immunity by exercising more and eating healthy. In the coming months, it makes sense for brands to explore these trends in their consumer engagement strategies.

Despite a broadly positive snapshot of Chinese consumer confidence, variability across geographies, products, and consumer groups suggests that brands cannot take a full recovery in demand for granted. Further, there is likely to be continuing uncertainty as the global situation evolves. The message for brands is to tailor their marketing and remain flexible as the COVID-19 crisis plays out.

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¹ McKinsey iConsumer Survey 2019 and Euromonitor