

Retail Practice

Reimagining food retail in Asia after COVID-19

New survey results suggest where, and how, food retailers in Asia might rethink their businesses in the wake of COVID-19.

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As the coronavirus pandemic spreads across the globe, threatening lives as well as livelihoods, it has clarified the vital role that grocery retailers play in society. Consumers expect these businesses to keep them fed and healthy, and groceries remain essential retailers in an uncertain situation that continues to evolve day by day.¹ The short-term priorities for food retailers are clear. They should safeguard the health of employees and customers, maintain business continuity, set up nerve centers to manage their organizations' work on the COVID-19 crisis,² and manage demand to align with supply-chain capacity—for example, by reducing the assortment of offerings, rethinking promotions, or introducing new products.³

To better understand how COVID-19 is affecting people's behaviors, spending, and expectations, we conducted research with more than 5,000 consumers in Asia, across seven countries.⁴ Nearly 70 percent of Thai respondents and 53 percent of Indonesian respondents are very worried about their ability to make ends meet because of the coronavirus. In Australia, China, and South Korea, the figures are lower (between 30 and 41 percent) but still significant.⁵

These countries are in different stages of the epidemic's progression, and their governments have taken different actions to address it. Regardless, the surveys point to signs that some shifts in consumer behavior are similar and could be lasting. These shifts require food retailers to act—and in some cases, accelerate the changes they have already made in response to the crisis—in four areas:

- **Reimagine safety, health, and the scope of supply chains.** While there are local differences, consumers across countries appear to care about in-store safety and prefer offerings that are healthy and locally sourced more than they did before COVID-19.

- When shopping, consumers are worried about their personal safety: one in five Australians and more than half of all Thais are afraid to go outside to shop for groceries. What's more, hygiene and cleanliness consistently feature among the top three reasons for positive shopping experiences. Consumers say these same factors will remain important in the next four weeks, as they consider which grocers to go to.
- Consumers report an increased focus on health and well-being in light of COVID-19. In all countries except China and Japan, more than three out of four consumers say they are focusing on boosting their immunity through more exercise and healthy eating. In most countries, we also see an increase in consumption of products that are perceived to be healthy (for example, fresh foods, eggs, dairy, and bottled water) and a drop in purchases of alcoholic beverages and snacks.
- In most countries, consumers also express strong preferences for local brands over international ones, across all categories. For instance, in Australia more than 80 percent say their preference for local brands has increased since before the outbreak began, while in China—a country where foreign brands have had a historically strong reputation—only 43 percent say they have a greater preference to buy from these brands.

To address these consumer shifts, retailers have a clear role to play. They should rethink their offerings and provide healthier, more locally sourced products (including ready-to-eat and ready-to-cook items) with a smaller environmental footprint. To meet rising customer expectations, these companies should also rethink the safety of the customer

¹ Bill Aull, Dymfke Kuijpers, Alex Sawaya, and Rickard Vallöf, "What food retailers should do during the coronavirus crisis," March 2020, McKinsey.com.

² For more on nerve centers and crisis response, see Mihir Mysore and Ophelia Usher, "Responding to coronavirus: The minimum viable nerve center," March 2020, McKinsey.com.

³ For more on the potential impact of the coronavirus on supply chains, see Knut Alicke, Xavier Azcue, and Edward Barribal, "Supply-chain recovery in coronavirus times—plan for now and the future," March 2020, McKinsey.com.

⁴ Australia, China, India, Indonesia, Japan, South Korea, and Thailand.

⁵ Includes respondents who said "strongly agree" and "agree."

Consumers appear to care about in-store safety and prefer offerings that are healthy and locally sourced more than they did before COVID-19.

journey, whether it's in-store or via delivery. For example, they can use technologies such as self-checkout and cash-free transactions to reduce risks.

— *Reimagine how technology can enable delivery and the value chain.* The results show that consumers are shifting their food spending online and have yet to return to their normal spending levels for food service. Responses also suggest an opportunity for grocers to digitize their stores.

- Across channels of food purchasing, respondents in most countries report a 30 to 70 percent drop in their preference for dine-in spending⁶ and an increase in grocery shopping and purchases of ready-made food in grocery stores, which consumers tend to prefer more than meal delivery from restaurants.
- Across countries, we see the frequency and share of online spending on food increasing by between 16 and 70 percent—and consumers indicate they intend to continue shopping online at this new pace. The only exceptions are in Australia, where online delivery was halted at the country's two largest grocery retailers, and in Japan, where behavior had hardly changed at the time the survey was in the field.⁷

- In all countries, consumers express a preference for self-checkout rather than assistance from cashiers during the coronavirus pandemic. Even in countries like Indonesia, 40 percent claim they will use more self-checkouts in the future.

To respond to the current crisis and meet future ones, food retailers need to use technology in new and different ways to scale up their e-commerce channels and their capacity for home delivery. They can do so by partnering with last-mile players and cold-storage warehouses, which will help them expand home-delivery capacity. Other options are expanding shifts in existing warehouses, using hybrid picking models, and converting a few retail locations into dark stores. Retailers can also use technology to enable their business and support consumers, not only by increasing their self-checkouts but also by looking end to end and considering how technology can make things safer for customers. Both e-commerce improvements and tech enablement will require new capabilities and talent—possibly from other industries—or an investment in reskilling current employees.

- *Reimagine the meaning of value for money.* In past crises, there have been surges in purchases of private-label and value brands. After the 2008 financial crisis, 60 percent of US

⁶ The one exception is in India, where consumers reported a 2 percent decline in their preference for dine-in spending.

⁷ The survey was in the field from March 23 to 24, 2020, and included responses from 500 participants from 18 to 65 years old.

consumers were more interested in reasonably priced products with core features than in higher-priced, cutting-edge products.⁸ Now, the consumers we surveyed expect times will only get tougher.

- As mentioned earlier, people are worried about the pandemic's impact on their personal incomes. In most countries, between 30 and 40 percent of consumers are worried about being able to make ends meet; in Thailand, 70 percent of consumers say so.
- What's more, consumers are willing to forgo future spending. Up to 50 percent of Chinese consumers surveyed say they were planning to give up a future purchase because of uncertainty related to COVID-19.

To address these shifts, food retailers should rethink their promotional calendars to safeguard their marketing spending to use only when it's needed to stimulate demand, either for discretionary products or for postcrisis essentials to meet people's desire for value.

- **Reimagine loyalty.** During the COVID-19 crisis, consumers have been loyal to those retailers and brands who offered essential products in their assortments.
- Location and availability of goods (often, fresh products) are the primary reasons why consumers have changed stores. In most countries, promotions or pricing has not emerged as a top three reason for switching to different stores.

- Except for in Japan and in South Korea, between 30 percent and 50 percent of customers have shifted from their primary stores, largely based on the availability of fresh food and the location. Depending on the country, up to almost 50 percent (reported by consumers in China) say they have not switched back.
- Except for in Japan and in South Korea, between 30 percent and 70 percent of customers have tried a new brand. Those in China are the most likely across countries to say they have not shifted back to old brands, which 20 percent of consumers there report.

To address this "loyalty shock," retailers should determine which stores are being affected disproportionately by customers shifting to other primary stores. Targeted marketing may help bring these customers back, as would retailers finding a way to better communicate the efforts they are taking to support customers and their societies more broadly, so consumers will be likelier to give them a bit more leeway.

Once food retailers have reimaged their businesses in these four ways, they will be better equipped 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 new normal. Their mission is broader than meeting consumer demands—it involves supporting the well-being and livelihoods for millions of people.

⁸ Betsy Bohlen, Steve Carlotti, and Liz Mihos, "How the recession has changed US consumer behavior," *McKinsey Quarterly*, December 2009, McKinsey.com.

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