

Understanding China and COVID-19:

An In-Market | On The Ground POV.

Thinking Ahead | *Leo Burnett*

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Executive Summary

- The recovery in China varies dramatically by city type, and the perception that China has reopened and is significantly ahead of other markets is generally overstated. China is also very different from economic, cultural and technological perspectives. While the learnings from China are valuable, we should be cautious when drawing conclusions for Canada and the United States.
- A V-Shaped economic recovery in China was expected, but Chinese consumers are being cautious and the economy is rebounding more slowly than expected. China was already in an economic slowdown before COVID-19 and consumer confidence varied by city.
- Despite the slow economic recovery, China was uniquely positioned to handle the pandemic given structural elements such as a more compliant society and near complete digital penetration enabling robust contact tracing.
- The crisis has accelerated trends that were already underway, such the proliferation of e-commerce in almost every category. This has been observed in Western markets as well, but China's nearly 100% digital penetration rate and cultural embrace of digital technology sets them apart.
- The categories that are rebounding the quickest are relying heavily on technology to augment or transform the customer experience. For example, technology such as live streaming and virtual reality are now being used to facilitate shopping and customer experiences.
- Despite these massive shifts in the way people are shopping, they are still cautiously optimistic and strongly desire a return to normalcy.

Implications for the Future

While the learnings from China must be tempered given the differences in culture, economy and technology, we can draw some implications for the future:

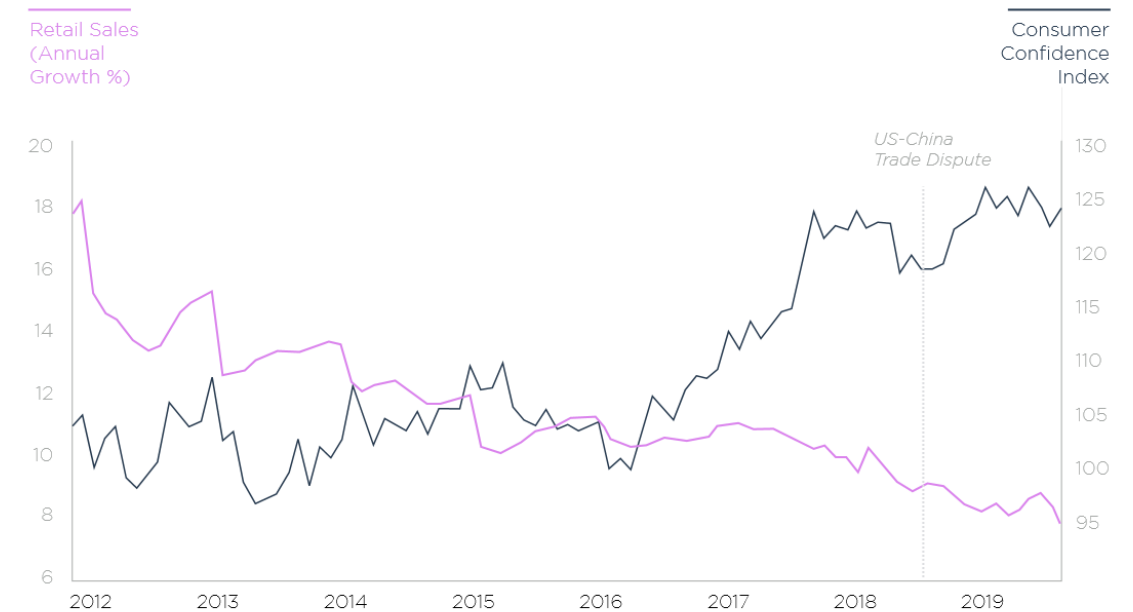
- **Plan for digital experiences becoming the norm.** As existing trends toward e-commerce and digital customer experiences have accelerated during the pandemic in China and the West, these new habits will likely last. Brands that embrace them will be more likely to succeed after the crisis. This means investing in top-of-the-line digital capabilities and marketing our digital tools and services.
- **Rethink and review the consumer journey.** The pandemic will influence, if not change, established and well-documented consumer journeys going forward. Figuring out how and where change has happened will be critical. Some behaviours picked up during the pandemic will become habits, emergent needs will change search trends, patterns and key words (free cancellation, safe distancing) and the role of brick and mortar for people in some sectors will change entirely. Assuming the consumer's journey will stay the same is not a reliable assumption.
- **Meet foundational needs, but also look to the future.** As in China, Canadians and Americans are cautious as they cope with the health and financial crisis, and want brands to help them with tangible actions and support. But they also want a return to normal and are looking for signs of hope and optimism from brands. Balancing tangible actions that help people today with signs of hope about the future will capture their minds and hearts.
- **Don't forget the basics of brand building.** When people are cautious, brands become more important. This means that brands should continue to be present and define a meaningful role today and tomorrow with products and services that meet consumers' needs. Though budgets may become slimmer, it's more important than ever to invest in brand building, especially with the rise in non-adjacent competitors.

A photograph of a busy shopping mall in China. The ceiling is decorated with many red lanterns. People are walking on a red escalator. The background shows a store with a sign that says "COLORED X".

China Before COVID-19: A Softening Economy

Understanding China today requires understanding the slowing economic conditions before the pandemic

- China's economy was already muted.
- Consumer confidence was low, especially in top-tier cities where rising lifestyle costs were leaving little room for spending growth.
- China's property market was also sagging, adding another layer of concern for consumers whose sense of wealth has been deeply tied to real estate.
- Brands across many sectors were already grappling with significant profit declines. To remedy this and sustain growth, many brands were resorting to steep discounting and other incentives to stimulate sales.
- Retail growth in China has always been a mixed bag. Top-tier cities have slowed spending considerably and are being squeezed on costs. Lower-tier cities are demonstrating far more optimism and less price sensitivity.



Source: National Bureau of Statistics

Overall, there was already a discernible slowdown in the economy heading into 2020. And then COVID-19 struck and everything ground to a halt.

Once COVID-19 hit, the government implemented economic stimulus action

Deferment of principal and interest payment for loans.

Epidemic-hit SMEs and micro firms, including small business owners and household businesses, can make applications to banks for deferring payment of principal and interest from January 25 to June 30, 2020.

Tax policies to support resumption of production and operation.

From March 1 to May 31, small-scaled taxpayers in Hubei province will be exempted from VAT if their tax rate is set at 3%. Small-scaled taxpayers in other regions will pay a lower tax rate of 1% on taxable sales revenue if their VAT rate is set at 3%.

Reducing and postponing social security contributions.

Small-scaled household business owners who have employees can also enjoy the policy of reducing and postponing social security contributions that were intended to benefit corporate employees.

China was somewhat prepared for the pandemic considering a number of existing factors



- Depth of experience with epidemics
- High level of control and compliance
- High economic resilience
- Digitally evolved economy
- Unparalleled consumer optimism



China Today: An Uneven Recovery

Things are starting to stabilize

Viral Deceleration

The COVID-19 outbreak in China peaked in mid-February and leveled off in mid-March. Though China was reporting 0 new cases, recent data shows a handful of new cases popping up. 22 provinces have lowered their emergency response level.

Government Sponsored Shopping

The government continues to take prevention and control measures. Meanwhile, a series of policies have launched to support the economy.

A \$575 billion USD stimulus package – equivalent to about 13% of China's 2008 GDP and the largest stimulus in the country's history – has been rolled out.



Disposable income has collapsed, a huge problem for a V-shaped recovery

Alicia Garcia Herrero



Economy / China Economy

Coronavirus: China's Xi Jinping promises action as economic growth machine stalls in first quarter of 2020

CHINA DAILY 财经 Home / Latest News

Wuhan gives its shoppers coupon bonus

By CUI JIALIU KUN | China Daily | Updated: 2020-04-21 07:16 [f](#) [t](#) [in](#) [+](#)

China is slowly coming back to life

- **Transport** - the number of railway passenger trips has picked up with an average daily increase of 60,000 as Chinese return to work. Commuters are back in their cars, leading Shanghai roads to be "almost as busy as they were before the outbreak."
- **Work** - office workers in most cities can resume work after completion of a self-quarantine period. Schools, however, continue to be closed.
- **Entertainment** - cinemas are opening again, although movie-goers are only able to sit in non-adjacent seats in every other row.
- **Dining** - similarly, restaurants are open, but with some steps before sitting and more separation between diners.
- **Trade** - China's top container ports have unclogged their backlog as virus curbs ease.
- **Auto** – Sales rose in April for the first time in two years.

“The impact of the epidemic on businesses will be temporary and limited to aviation, tourism and retail sectors. We believe that when the epidemic is gone, the demand in the suppressed sectors will certainly rebound and gradually return to normal”

- Ren Hongbin, deputy director of the State-owned Assets Supervision and Administration Commission (SASAC) of the State Council

But fear and anxiety are driving debates about recovery

- A V-shaped recovery was expected but the economy is not coming back at the speed that was predicted
- People are still very anxious and feel that the virus could reappear, and this societal concern is leading to lower spending – people are spending but spending carefully
- China has more personal savings than other countries but people are still nervous to spend
- Underlying anxiety prevents return to life with full steam – actions are driven by feelings and perceived safety inside and outside of China
- Research shows that consumers say they need 3 months AFTER the beginning of recovery before they will go back to shopping as usual

Coronavirus: China's economic recovery path uncertain after mixed industrial production, retail sales data

- April's figures released on Friday remained mixed, rekindling the debate over the outlook for China's economic recovery
- Analysts debate V-shaped, U-shaped L-shaped and W-shaped recoveries for the world's second largest economy



Cissy Zhou

Published: 9:30pm, 15 May 2020

Why you can trust SCMP



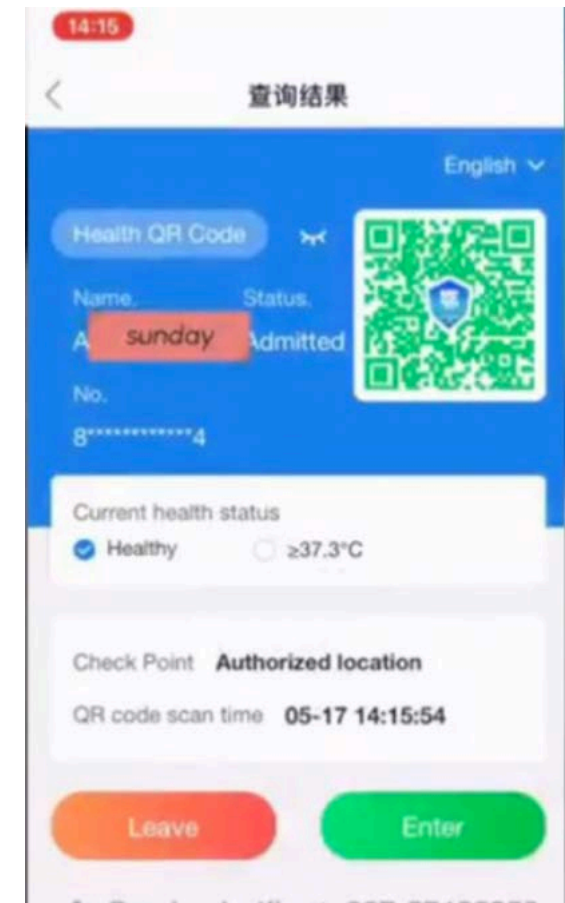
COVID-19 Pandemic

Economists Divided on Whether China Will See V-Shaped Recovery

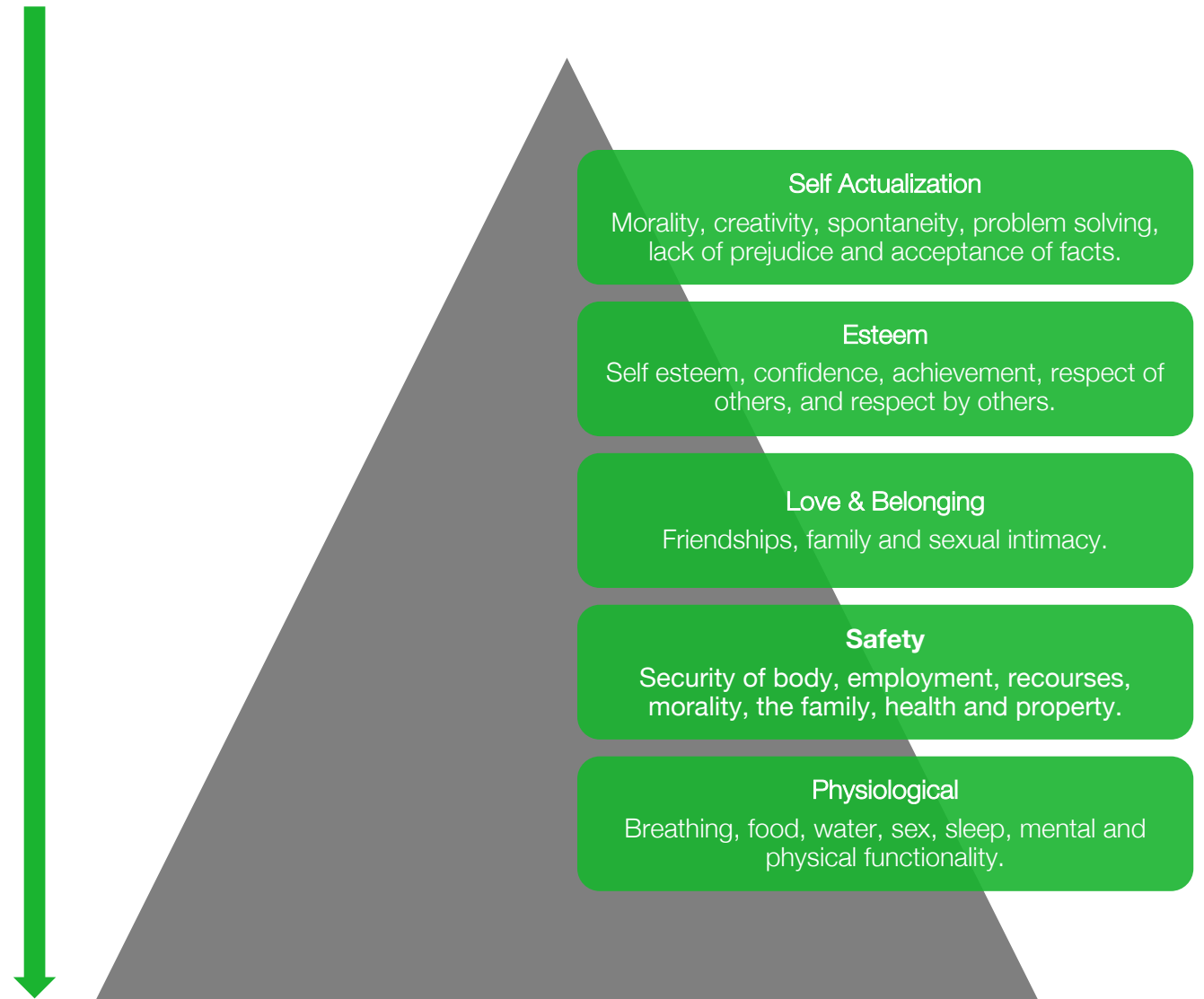
By Joyce Huang
March 27, 2020 08:56 PM

Contact tracing makes life very different now

- Chinese citizens have to give their national identity number or passport number, as well as their phone number. The app asks them to complete a questionnaire about travel history and current symptoms. Authorities then verify this information.
- The colour on the screen determines your options, based on your current health status: green means that you're good to go, yellow means you've been close to somebody who's been sick, and red means you have to stay home. The colours change in real time to control movement.
- In order to safely reopen their doors, many businesses in Chinese cities are posting public-facing QR codes that potential customers must scan using their smartphone. A scan checks the user's temperature, registers his/her name, shows exactly where he/she has been in the past 14 days, and determines whether he/she can enter the building.
- More than 100 Chinese cities are using the QR code system to ensure that only those who are not sick are going out in public.



Similar to most global markets, Chinese consumer purchase behaviour has shifted to foundational needs



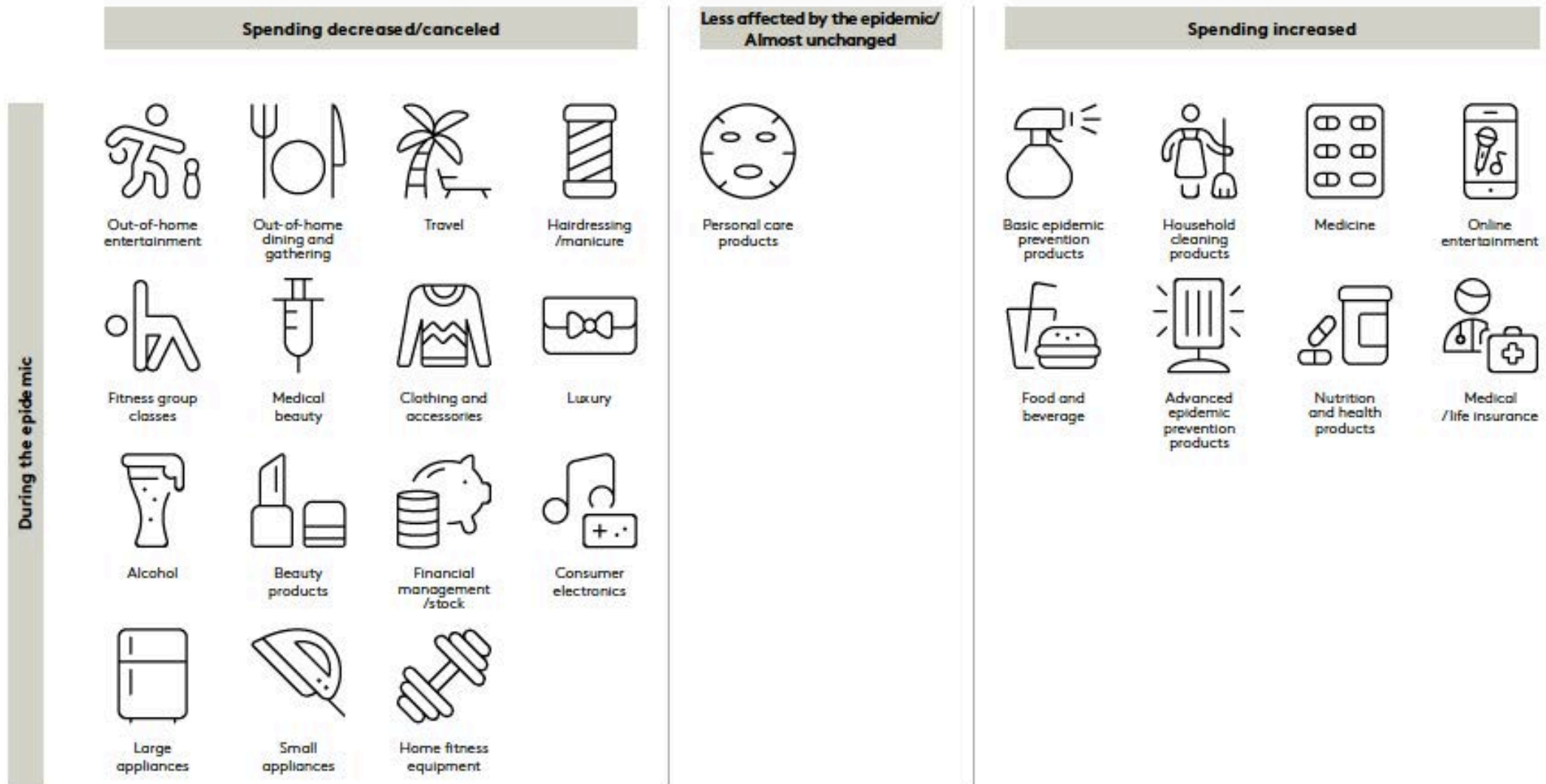
As a result,
people's purchase
behaviours have
systemically
changed...

Products and services people spend less on than usual due to the coronavirus pandemic in the United States, United Kingdom, Germany, and China (as of April 27 2020)

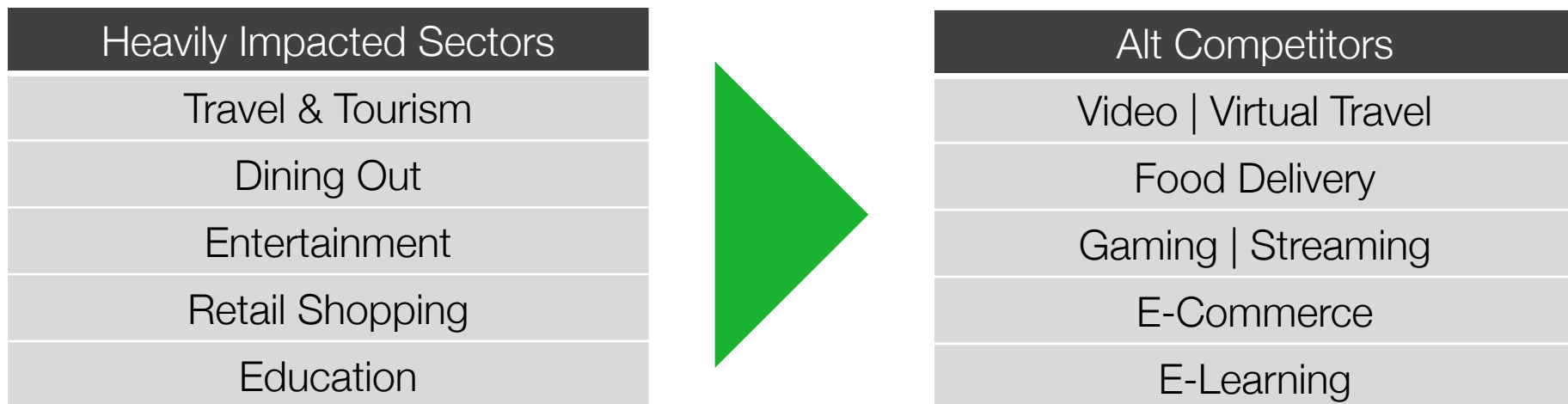
	China	Germany	United Kingdom	United States
Household cleaning products	5%	6%	8%	6%
Health and hygiene (e.g. medicine, hand sanitizer)	5%	6%	8%	5%
Home entertainment (e.g. video, games, books)	14%	13%	19%	16%
Insurance	15%	16%	15%	14%
Childcare	21%	19%	25%	22%
Food and drinks (e.g. shopping, takeaways, delivery)	24%	17%	23%	26%
Hobbies	28%	31%	30%	27%
Consumer electronics, household appliances, furniture	31%	30%	38%	36%
Housing, energy, maintenance (e.g. electricity, waste disposal, DIY)	31%	12%	13%	13%
Investments	40%	35%	29%	28%
Clothing	47%	42%	58%	52%
Services (e.g. hairdresser)	69%	69%	77%	74%
Going out (e.g. restaurants, cinemas, pubs / bars)	86%	75%	82%	82%

...causing category downturns for some and upticks for others

Source of data and analysis: Kantar Consulting



Similar to Canada and the US, the shift in consumer behaviour has given rise to new non-adjacent competitors



There are new experiences, behaviours, and expectations that brands will have to contend with.



Insights from Street Level: Publicis APAC

While there are many indicators to interpret what is happening in China, nothing beats on-the-ground experience. This section is informed by the Publicis team in Asia Pacific.

Insights From Street Level

- The experience of COVID-19 across China Tier 1, 2, & 3 cities is massively varied, so any generalizations about pre-cursors to the 'new normal' behaviours and consumption patterns are precarious.
- The perception that China is 'ahead' of other markets is an anomaly in many ways:
 - a. China remains largely locked down. Borders remain closed so the country is in a holding pattern, more so than emerging from COVID-19 as the world believes.
 - b. Singapore is tightening restrictions.
- Brand experiences and reactions vary by client based on their ability to genuinely help fulfill people's emotional needs across the pandemic phases:
 - a. E.g. Mondelez & AXA are thriving
 - b. E.g. Coke, Heineken & Citi are in tenable but painful holding patterns.
 - c. E.g. Cathay is in a very difficult position with more uncertainty than can be planned for.

Publicis APAC

Insights From Street Level

- Home has become the anchor. TV viewing is up. A huge percentage of Chinese say the first thing they will do after the crisis is travel but there are more online searches for domestic travel.
- The crisis has accelerated many structural changes that were already underway. Digital commerce and communications were already occurring before the pandemic. SARS created e-commerce in China; Covid has changed the dynamic dramatically by bringing it to almost all categories. Any brands still not shifting to digital will be dramatically behind after recovery.
- There is about to be 100% digital penetration in China – you can't go anywhere if you don't have a cell phone due to contract tracing. This is also going to lay the foundation to track movement permanently (with raging debates about whether this is positive or negative).

Publicis APAC

A photograph of a white Honda CR-V on an assembly line. The car is suspended by yellow overhead cranes. In the foreground, a worker wearing a white uniform, a white hard hat, and a white face mask is working on the underside of the car. The background shows a factory setting with blue structural elements and other vehicles in the distance.

China Tomorrow: Moving Ahead to the Next Normal.

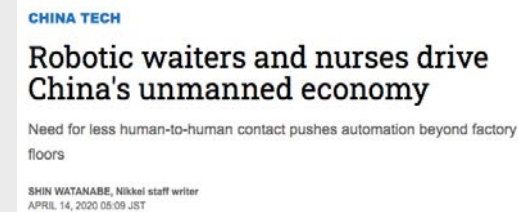
Innovation has brought opportunities

Currently, China's economy needs to rely heavily on high-quality growth driven by technological innovation.

In the last decade, China's research and development (R&D) spending has grown rapidly, now surpassing the European Union as the second-largest in the world after the United States.



- Despite the impact of the coronavirus, 80% of 5G development is going on schedule.
- China has unveiled its first 'intelligent' makeshift coronavirus hospital, which sees 5G-powered robots providing 24-hour care for patients.
- 5G will unlock the full potential of AR and VR.



- Unmanned retail is accelerated during the COVID-19 outbreak, as it avoids human contact as much as possible.
- Stock prices of unmanned stores, unmanned delivery and UAV etc. are on the rise.

Livestreaming is contributing to business rebounds

K11, Intime



Department stores K11, Intime used live streaming to sell. In 3 hours, they've attracted the same number of customers as they welcomed in 6 months offline.

Ikea



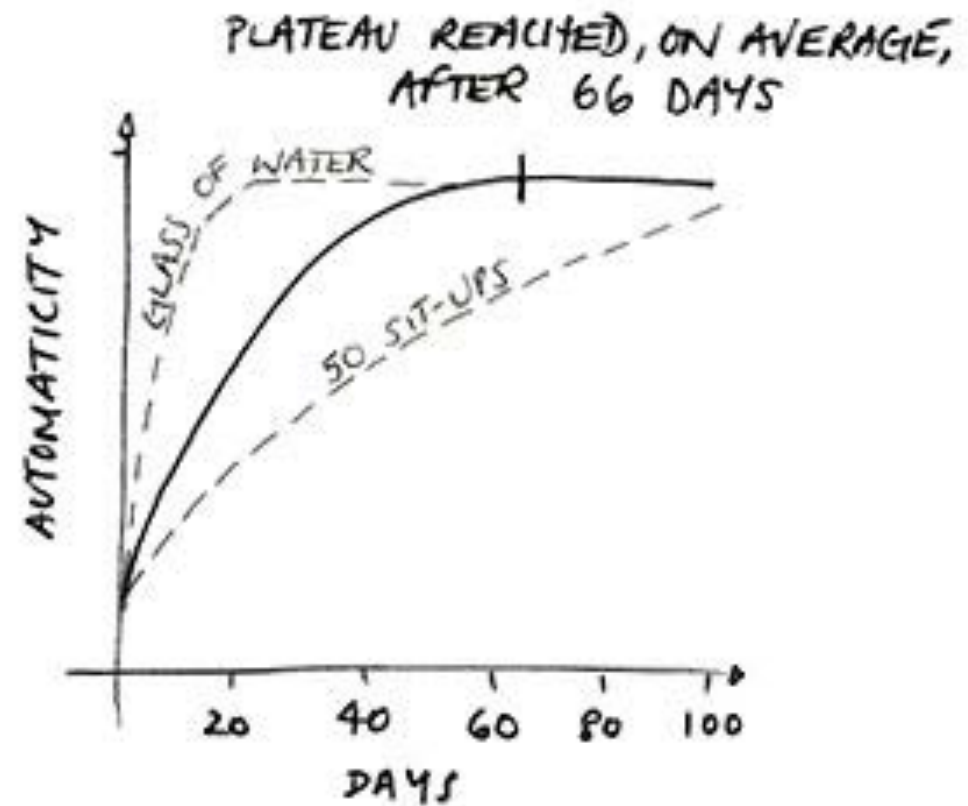
Ikea launched Tmall shop and tried live streaming for selling products on 10th Mar.

Auto dealers



Car dealers started selling cars on short video platforms and live streaming platforms.

The longer the duration of the pandemic, the greater the chance of alternatives becoming habits

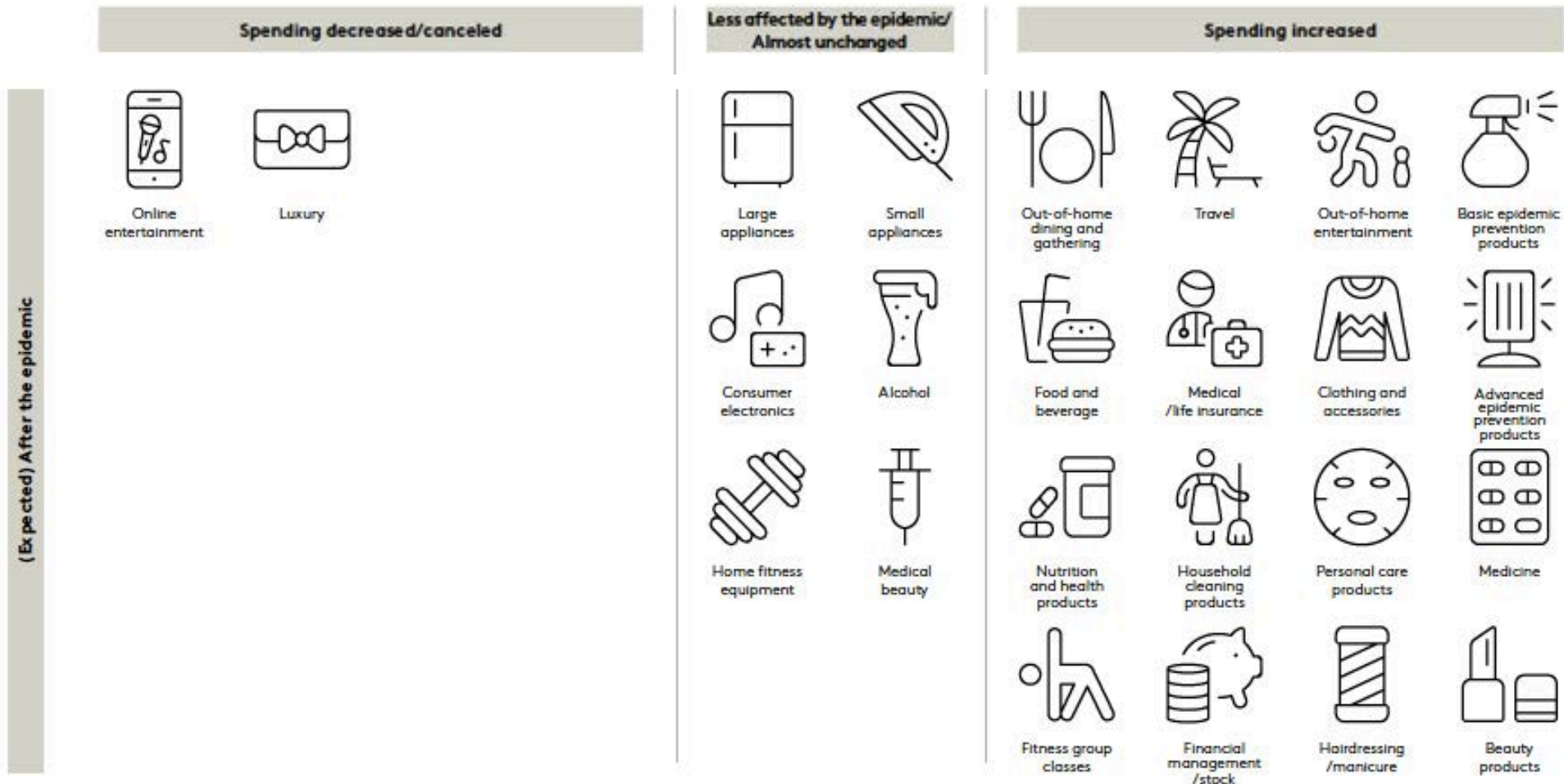


On average habit formation is 66 Days

There's a strong desire to return to normalcy

Analysis and forecast on impact of the epidemic on consumption

Source of data and analysis: Kantar Consulting



But normalcy will look different, with more technology and a focus on personal and environmental wellbeing

67%

now believe AR/VR can be used in virtual shopping scenarios.

59%

of Chinese retailers now intend to invest more in online channel and apps because consumers are now open to buying daily/ fresh items online more frequently.

52%

began to focus on health and started to learn which products can strengthen the immune system.

41%

now prefer environmentally-friendly products and organic products.

35%

feel fresh, safe products are more important than ever before.

31%

will buy reassuring brands.

GDP growth rate is projected to rebound in 2020 and in 2021

- China GDP growth is estimated to fall to 4.9% in 2020, 0.8% lower than previous forecast
- Global GDP expected to slow down 0.5%.
- In 2021, the global economy will recover from 2.4% to 3.3%, with China rebounding the most – a 0.9% increase.
- As the outbreak keeps spreading globally, China will be affected by other countries as well, but China is less reliant on exports than it's ever been and the government will be doing everything it can to recover the domestic economy - particularly through consumer spending.

OECD Interim Economic Outlook Forecasts, 2 March 2020

Real GDP growth
Year-on-year % change

	2019	2020		2021	
		Interim EO projections	Difference from November EO	Interim EO projections	Difference from November EO
World ¹	2.9	2.4	-0.5	3.3	0.3
G20 ^{1,2}	3.1	2.7	-0.5	3.5	0.2
Australia	1.7	1.8	-0.5	2.6	0.3
Canada	1.6	1.3	-0.3	1.9	0.2
Euro area	1.2	0.8	-0.3	1.2	0.0
Germany	0.6	0.3	-0.1	0.9	0.0
France	1.3	0.9	-0.3	1.4	0.2
Italy	0.2	0.0	-0.4	0.5	0.0
Japan	0.7	0.2	-0.4	0.7	0.0
Korea	2.0	2.0	-0.3	2.3	0.0
Mexico	-0.1	0.7	-0.5	1.4	-0.2
Turkey	0.9	2.7	-0.3	3.3	0.1
United Kingdom	1.4	0.8	-0.2	0.8	-0.4
United States	2.3	1.9	-0.1	2.1	0.1
Argentina	-2.7	-2.0	-0.3	0.7	0.0
Brazil	1.1	1.7	0.0	1.8	0.0
China	6.1	4.9	-0.8	6.4	0.9
India ³	4.9	5.1	-1.1	5.6	-0.8
Indonesia	5.0	4.8	-0.2	5.1	0.0
Russia	1.0	1.2	-0.4	1.3	-0.1
Saudi Arabia	0.0	1.4	0.0	1.9	0.5
South Africa	0.3	0.6	-0.6	1.0	-0.3

Note: Projection based on information available up to February 28. Difference from November 2019 Economic Outlook in percentage points, based on rounded figures.

1. Aggregate using moving nominal GDP weights at purchasing power parities.




2. The European Union is a full member of the G20, but the G20 aggregate only includes countries that are also members in their own right.

3. Fiscal years, starting in April.



Key Comparisons with Canada and the US

Market recovery and consumer sentiment will likely vary because of systemic differences

			
	82,900	59,500	1.2 million
Pandemic Intensity	Communism	Socialism	Capitalism
Pandemic Response by Government	Centralized Highly Controlled	Centralized Highly Co-ordinated	Decentralized Highly Un-coordinated
Ideology	Collectivism	Diversity	Individualism
Core Values	Modesty Interdependence Unity Formality	Modesty Fairness Tolerance Informality	Opportunism Freedom Liberty Informality

People are expecting brands to play a more active role



46%
Strongly / somewhat approve of 'normal' advertising campaigns.

87%
Strongly / somewhat approve of brands running advertising which shows how they are responding to helping customers during COVID-19

93%
strongly / somewhat approve of brands providing practical information / tips which help people to deal with the situation



34%
Strongly / somewhat approve of 'normal' advertising campaigns.

78%
Strongly / somewhat approve of brands running advertising which shows how they are responding to helping customers during COVID-19

87%
strongly / somewhat approve of brands providing practical information / tips which help people to deal with the situation



48%
Strongly / somewhat approve of 'normal' advertising campaigns.

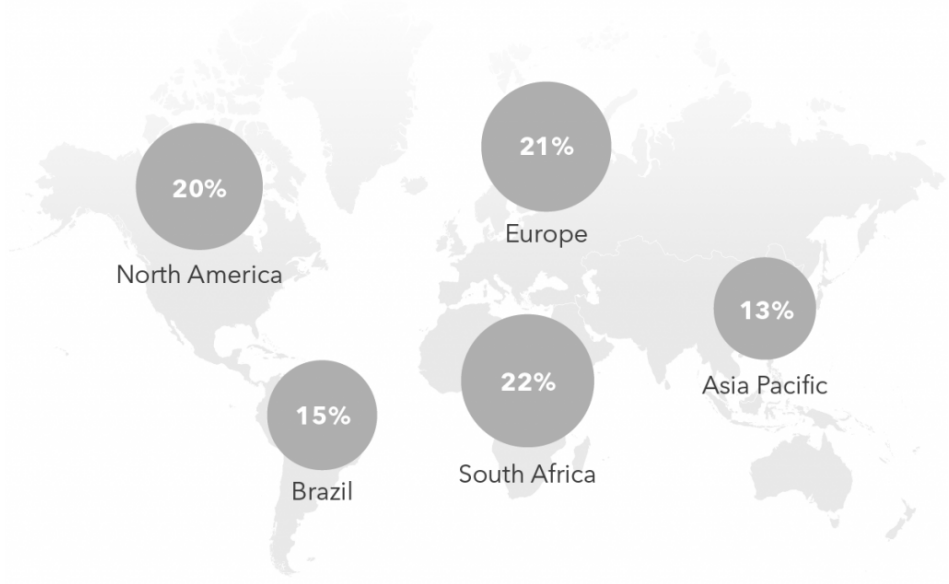
72%
Strongly / somewhat approve of brands running advertising which shows how they are responding to helping customers during COVID-19

82%
strongly / somewhat approve of brands providing practical information / tips which help people to deal with the situation

Tempered by tangible economic uncertainty

How soon we plan to return to shops

% who plan to return to shops "quite quickly" once they re-open



China Tries to Revive Economy But Consumer Engine Sputters

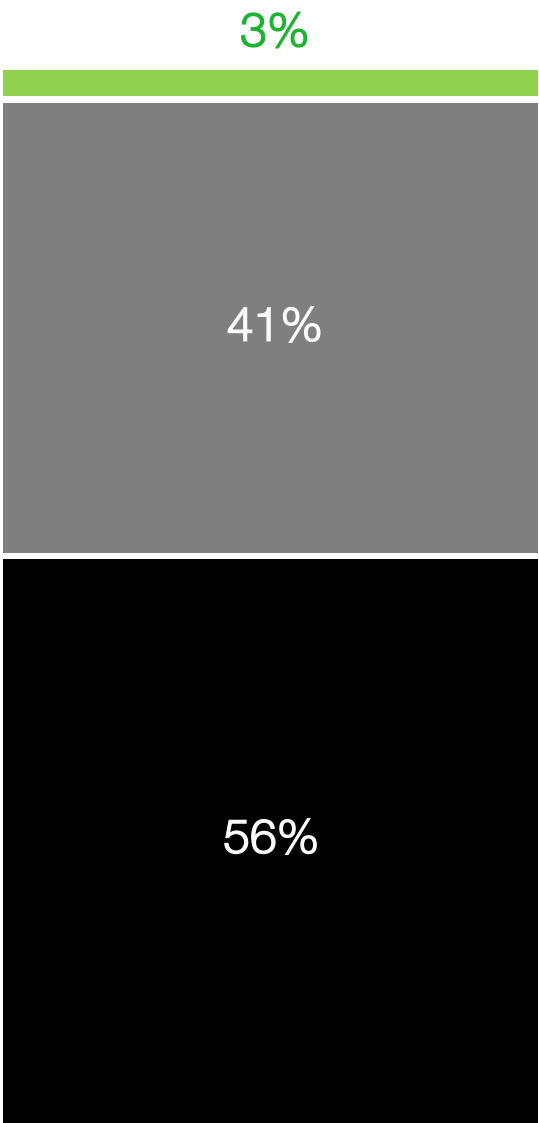
Restarting the Chinese economy will require an increase in consumer spending and confidence.

Source: Statista, GWI April 22-27, 2020

Attitudes towards economic recovery after COVID-19.

April 8-13th, 2020

- Optimistic
- Unsure
- Pessimistic



The background of the slide features a photograph of several Chinese national flags (red with five yellow stars) hanging from black poles. In the background, a city skyline with tall buildings is visible under a clear sky. Ornate black lampposts with white globe lights are also present. A semi-transparent grey rectangular box is centered over the image, containing the text 'Key Learnings'.

Key Learnings

Key Learnings

1. A 'renewed abnormal' or 'next normal' will take hold, rather than a 'new normal.'

The 'new normal' creates an artificial absolute. It suggests people will shift from one constant state to another, which is not true. Behaviour in China, like every other country, is adaptive and any truly transformative effects of COVID-19 will likely be uneven and prolonged. Stepping back, it feels better to think of COVID-19 as a catalyst for many changes that were already in motion, that are now being accelerated.

2. Going deep instead of wide.

Targeting used to be based on reach but now that's not possible as every city is in a different stage and mode. Every client is now questioning what alternative routes can be established between them and their consumer, whether it relates to comms or physical distribution. Performance is key so there are big shifts to CRM databases, conversion, super targeting, and customer relationships. This is a rich time to be radically rethinking how even traditional brands can serve and connect with their consumers.

Key Learnings

3. Brand matters and investment is critical. You also can't fake living your purpose.

Brands with stronger equity fared better during the crisis because consumers put greater emphasis on trust and reliability as their personal safety, well-being, and normalcy were challenged. Brands that were brave and kept spending benefited from huge SOV and are well set up for success as recovery takes hold.

Consumers have seen and heard brands promote their purpose and have directly experienced which brands live it and which only give it lip service. People's BS meters have been heightened.

4. Marketers must start thinking beyond COVID-19, even before its gone.

Currently, clients are briefing everything as COVID-related somehow or other - as if consumers will need reminding of what's gone on. It feels like brands who are bold enough to leave behind tropes of nostalgia or practical / emotional support and allow consumers to look forwards and upwards again will be best placed moving ahead. Chinese are cautiously optimistic and want reassurance that things will be okay.

Key Learnings

5. Move fast or fail.

Brands have to move faster than ever before. Things change in an instant and brands have to be ready. Companies are learning it is better to be fast than right... if mistakes are made, you can always course correct on the go. Slowness loses in this new reality.

6. There's a playbook. Use it.

The pandemic may be uncharted territory, but the recession that follows will bear many similarities to past recessions in China. There is a playbook for this yet few clients are using it to prepare.

Likewise, the fundamentals of what drives and builds brand growth haven't changed. Yet we're seeing brands (historically strong Bryon Sharp disciples) throwing this thinking out of the window when under pressure. There is a lot of short-term thinking.

Thinking Ahead | *Leo Burnett*