

WINNING THE RETAIL BATTLE IN A WORLD WITHOUT MASK RESTRICTIONS

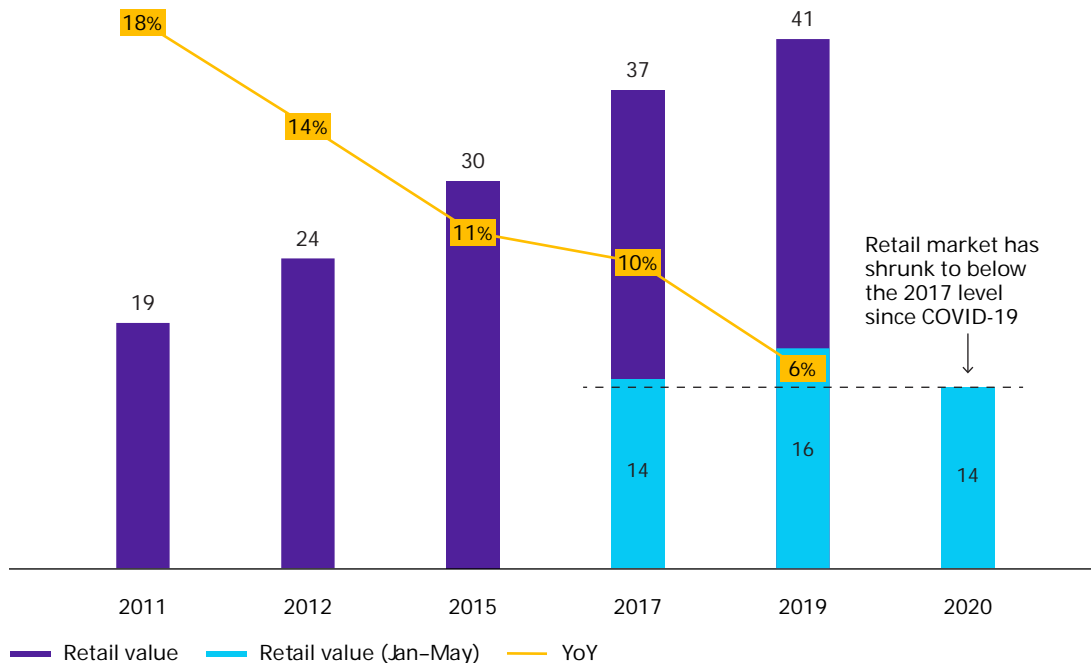


Pedro Yip
Alex Shutter
Wen Chen

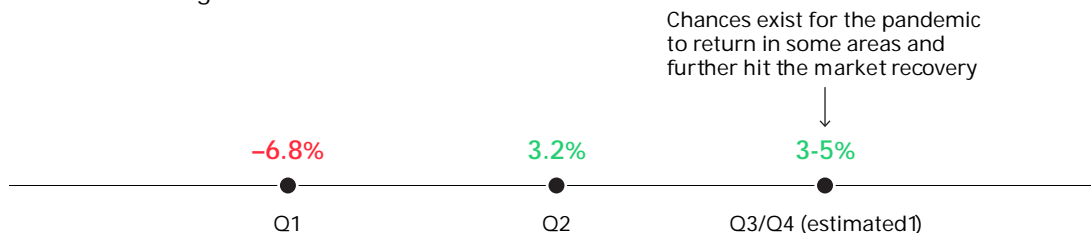
China's retail market has entered a new era with decelerated overall growth, and the COVID-19 outbreak has hit it even harder. The retail market's annual growth has been decreasing since 2011, from almost 20% to c.6% in 2019. While many retailers had just started getting used to this tough situation, the pandemic began, together with probably the most negative economic impact seen in decades. During the first five months of 2020, more than RMB 2 trillion has already been wiped out from the market. There is also the chance that the pandemic will return in some areas and so hit the retail market a second time.

Exhibit 1. China's retail market has entered a new era with decelerated overall growth; the COVID-19 outbreak has hit the market even harder

China's total retail sales of consumer goods, 2011-2019
Trillion RMB



2020 China GDP growth



This turbulent situation is only going to accelerate structural changes in channel dynamics and consumer shopping behavior, resulting in China's retail market entering a "post-COVID normal".

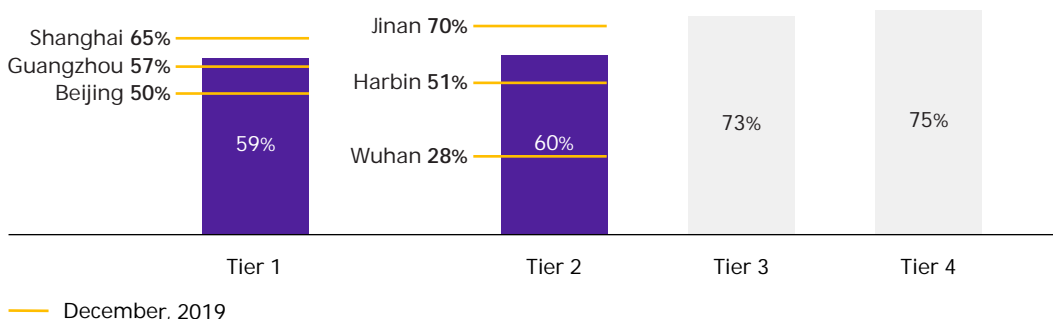
Retailers have already pulled many short-term levers, such as big promotions, assortment adjustments, and cost cutting, to survive this difficult time. Most of them expect it will take more than six months for their business to fully recover. Meanwhile, many leaders are also considering changes to their retail footprint and channel strategy to win in the post-COVID normal. To thrive in this new environment, they need to think carefully and differently, as the market has experienced profound changes. They should make quick decisions within their current footprint to prioritize daily investment and explore new avenues to drive future growth and pre-empt competitors.

Based on Oliver Wyman's understanding of China's retail market, we wish to share three observations with ambitious retailers who want win in this post-COVID normal:

- **Accept the fact that a lot of existing stores will never come back to profitability after the pandemic, so be bold and close them quickly to cut losses and double down on new strategic locations.** Offline traffic has been recovering gradually, but many stores are still under heavy pressure, especially in high tier cities. Within a city, the recovery rate can also be very different for different catchments or malls, with multiple factors at play, such as target customers (locals vs. tourists), product proposition (premium vs. mass market), and location (residential vs. commercial). In the first five months of 2020, c.10% physical stores were closed down, while it is usually only c.15% for a whole year. Even some profitable stores may never come back to pre-COVID performance levels, as consumer behavior has changed significantly. Thus it is critical to take a forward-looking view to estimate the future performance of each existing store to quickly make the right decision.

Exhibit 3. Offline traffic is recovering, but many stores are still under pressure, especially in higher-tier cities

Average daily mall traffic in April 2020 as % of December 2019, by city tier



Average daily mall traffic in April 2020 as % of December 2019, within Beijing

Above city average		Below city average	
Yizhuang	65%	Dongzhimen	45%
Tiantongyuan	57%	Sanlitun	44%
Shuangjing	56%	Wukesong	37%
Wangfujing	56%	Zhongguancun	36%

- **Invest in smaller targeted stores and mega flagship stores as they will thrive; and work hard to re-invent a differentiated proposition for mid-sized stores.** Undoubtedly consumers will keep visiting physical stores in the post-COVID normal. However, while they now want almost everything, the bar to persuade them to visit and pay is much higher. Retailers have experimented many new store formats. Some have launched small stores with a very targeted purpose, flexible locations, and relatively low cost to ensure profitability. Others have opened mega flagship stores to offer extraordinary customer service and experiences. The key challenge is with mid-sized stores, which number the most as they y l n3 ip s M rS e
- Exhibit 5.**

Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation.

For more information, please contact the marketing department by phone at one of the following locations:

Americas
+1 212 541 8100

EMEA
+44 20 7333 8333

Asia Pacific
+65 6510 9700

AUTHORS

Pedro Yip

Partner, Head of Retail & Consumer Goods, Greater China
pedro.yip@oliverwyman.com

Alex Shutter

Partner, Retail & Consumer Goods
alexander.shutter@oliverwyman.com

Wen Chen

Principal, Retail & Consumer Goods
wen.chen@oliverwyman.com

Copyright © 2020 Oliver Wyman

All rights reserved. This report may not be reproduced or redistributed, in whole or in part, without the written permission of Oliver Wyman and Oliver Wyman accepts no liability whatsoever for the actions of third parties in this respect.

The information and opinions in this report were prepared by Oliver Wyman. This report is not investment advice and should not be relied on for such advice or as a substitute for consultation with professional accountants, tax, legal or financial advisors. Oliver Wyman has made every effort to use reliable, up-to-date and comprehensive information and analysis, but all information is provided without warranty of any kind, express or implied. Oliver Wyman disclaims any responsibility to update the information or conclusions in this report. Oliver Wyman accepts no liability for any loss arising from any action taken or refrained from as a result of information contained in this report or any reports or sources of information referred to herein, or for any consequential, special or similar damages even if advised of the possibility of such damages. The report is not an offer to buy or sell securities or a solicitation of an offer to buy or sell securities. This report may not be sold without the written consent of Oliver Wyman.