

# The Influences of Covid-19 on China's Retail Trade and Its New Opportunities

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## ABSTRACT

In view of the normalizing Covid-19, new coping strategies are essential for the global economy, fitting the current situation and future trends. This paper reveals the influences of the pandemic on the retail industry in terms of supply and demand chains, including plummet need for physical consumption, shortage of labour and inefficient transportation thanks to complex security checks. While it also analyses new growth opportunities of traditional retailing caused by changing consumers' shopping behaviours. Finally, four solutions are provided to cater to the new market environment during the virus era, including retail industry structure adjustment, new marketing model, promoting digital process and improving meet user experience for the loyalty consumer base.

**Keywords:** Covid-19, China retail trade, Community retail

## 1. INTRODUCTION

This paper explains the negative influences of Covid-19 on China's retail trade, and its causes with new opportunities for future development of this industry. Compared with other essays which pay attention to the effects on macroeconomic and various industries, this focus on retailing trade. It argues that pandemic, a threat to people's health with extreme infectiousness, serving as a financial crisis to strike every independent economy and global economy, leads to the double shock to supply and demand of industry chain as well as structural pressure on China's retail economy. The reliance on the physical stores and relative government policies leads to the opposite result of traditional retail and new retail based on online selling with emerging services. Then, the essay will assess the sustainable opportunities with four relative strategies, retail industry structure adjustment, new marketing model, promoting digital process and improve meet user experience, which helps to rebuild retail economic health. The aims of the study are finding out existing problems and orienting future development direction serves as necessary guides for retail industry adjustment, fitting in the changing needs and social environment.

## 2. THE INFLUENCE ON THE TRADITIONAL AND PHYSICAL RETAIL

Covid-19, a sudden outbreak of the global crisis, causes a series of adverse effects on retail trade, especially for traditional systems based on physical stores. Firstly, plummeting sales because of the shock to the demand of customers is the most obvious impact during this period [1]. As the Chinese political system and historical reasons like inherent values, the government policies are influential and powerful for the public. Epidemic prevention policies, such as community and street lockdown with household surveys and community passes are stringently enforced [2]. Some communities even restrict the number and period of resident travel, which reduces offline shopping frequency.

Moreover, with the increased mortality, panic about pandemics with high transmissibility rapidly spreads through the population, which makes people no longer go out, avoiding the risk of interpersonal interaction. Researchers concluded that shopping frequency reduces from "twice to three times per week" to "once per week" during COVID-19, although consumers already have flexible schedules [3].

Therefore, citizens' consumption plunges under external and inward pressures, reducing sales of street shops, supermarkets and comprehensive shopping malls. After months of consumption depression, some retail

businesses fail to cover their significant fixed cost and other day-to-day running costs, like fixing rent and salaries to salesclerks, then closing down due to continuously decreasing revenue and profit.

Take Unilever, a multinational consumer goods company that mainly sold fast-moving products, as a

typical example, its operating profit rises gradually from €6,977 million to €12,639 million from 2011 to 2018, before decreasing sharply by €3931 million in 2019. And the figure for 2020 data is worse (€ 8,303 million). It is noteworthy that the epidemic began at the end of 2019 and broke out in 2020, which prove the adverse effects of this pandemic on retail company's operation [4].

	11	12	13	14	15	16	17	18	19	20
<b>Operating profit</b>										
€ million	6,420	6,977	7,517	7,980	7,515	7,801	8,957	12,639	8,708	<b>8,303</b>
<b>Underlying operating profit</b>										
€ million			7,504	7,497	8,311	8,624	9,500	9,463	9,947	<b>9,367</b>
<b>By product area as % of total operating profit</b>										
Beauty & Personal Care	39	42	41	41	48	48	46	33	52	<b>52</b>
Foods & Refreshment	53	50	52	52	42	40	41	58	32	<b>33</b>
Home Care	8	8	7	7	10	12	13	9	16	<b>15</b>
Total	100	100	100	100	100	100	100	100	100	<b>100</b>
<b>By geographical area as % of total operating profit</b>										
Asia/AMET/RUB	33	38	37	33	40	42	43	38	51	<b>50</b>
The Americas	35	35	38	40	30	32	35	29	31	<b>33</b>
Europe	32	27	25	27	30	26	22	33	18	<b>17</b>
Total	100	100	100	100	100	100	100	100	100	<b>100</b>

Figures are presented on the basis of continuing operations as at 31 December 2020.

Figure 1 Operating profit from Unilever Charts 2020 (Source: from Unilever).

### 3. THE INFLUENCE OF INVENTORY

Furthermore, another negative influence is a low rate of inventory turnover, holding a large amount of that and paying high storage costs. Even worse, owing to the particularity of the beginning time which is the Chinese Spring Festival of the pandemic. Many supermarkets and private stores suffer from stock issues on vegetables, meat and other short quality guarantee period goods for a family reunion. However, the closing policy enforced

makes a lot of goods overstocking, which means being overdue and wastes soon. Thus, it causes an irreparable loss for retail sellers.

Unilever report exposes that €204 million inventories at the beginning of 2020 are valued only at €159 million at the end of the year, decreasing €45 million and being lower than its cost. According to the income statement, €381 million expenses were paid to inventory write downs and losses.

<b>Inventories</b>	<b>€ million 2020</b>	<b>€ million 2019</b>
Raw materials and consumables	1,523	1,399
Finished goods and goods for resale	3,223	3,053
Total inventories	4,746	4,452
Provision for inventories	(284)	(288)
	4,462	4,164
<b>Provisions for inventories</b>	<b>€ million 2020</b>	<b>€ million 2019</b>
1 January	288	205
Charge to income statement	116	153
Reduction/releases	(97)	(71)
Currency translations	(26)	-
Others <sup>(a)</sup>	3	1
31 December	284	288

(a) Others include the amount relating to the acquisition/disposal of businesses.

Figure 2 Inventory revaluation from Unilever Charts 2020 (Source: from Unilever) [5].

### 4. SUPPLY CHAIN PROBLEM

In addition, the supply chain suffers destructive effects of covid-19 in terms of shortage in labours and factors of production. China, the heart of 'Factory Asia'

and the workshop of the world, whose economy relies on production and export deeply has been badly affected.

#### 4.1. Labor shortage

First off, insufficient capacity of production because of lack of labours is unlikely to meet the need of

customers, including some raw materials, daily necessities and even food. For example, more than 20 Chinese provinces suffer an electricity crisis during the pandemic, since reducing the output of coal which is the main source of the country's electricity [6].

Infections and self-isolation make people fail to return to their job position in time and participants in process of producing [7]. Also, decreasing labour mobility because of the policy for restricting movement within and between countries to curb virus transmission probably causes market failure with a high unemployment rate.

In the early days of the pandemic, furlough schemes (CJRS) were launched in March 2020.

Many companies and factories are forced to shut down, thus some or all staff are asked to put on temporary furlough. On the one hand, vacation causes labour shortage, disrupting the supply chain and plunging the quantity of output. Furthermore, going off duty lead workers to earn less rate with lower purchasing power, which means sharply decreases national consumption.

Therefore, if government policies are absented or the epidemic has not taken a turn for the better, people will be likely to suffer starvation and express demand, although the price may be higher than its equilibrium level. It means that people's living standard is unable to be guaranteed.

#### ***4.2. The efficiency of transportation***

In the field of the transportation industry, transmission efficiency decreases due to more complex processes and security checks. Delivery companies are asked to disinfect the warehouse and record time with the exact operator where stocks cargo regularly [8]. Before operating daily works, labours in various departments are checked body temperature with "Green health" compulsively, cutting off supply-side contagion and ensuring public health. Meanwhile, this industry also lacks workers such as truck drivers. It costs a lot of time, which delays the transport period both from factories to retailers and from sellers to consumers. In this way, production process of different products stagnates as insufficient inventory with noncontinuous material supplements. About final products transmission, fresh goods like vegetable, fruit and other short-shelf life goods experience more of a dangerous crisis. Most of them are overdue or rot own the way, then wastage occurs.

Moreover, not only domestic supply market faces a serious situation, but also the international chain was hit due to disrupted logistics. The air cargo capacity was restricted thanks to the limiting policy of commercial aviation, which means that foreign labours and import goods become unavailable. Its negative effects cannot be imagined during the highly globalized era when

economic cooperation and communication are becoming more widespread.

Owing to these supply chain problems, there is an adverse material price cost. Producers and retailers need to pay higher for the same materials, meaning the higher cost of production as well as decreasing profits.

Container, an essential factor of shipping, its shortage is caused by significant Favorable balance of trade of China during a pandemic. The cost of transporting goods by container ship soared (from \$ 1461 on 3rd Jan. 2020 to \$3,452 on 1st Jan. 2021), while decelerating container production aggravates the problem [9].

### **5. THE OPPORTUNITIES FOR NEW RETAIL INDUSTRY**

On the other hand, compared with the hammer blow for traditional retail trade, covid-19 brings the alternative growth. The new activity of new retailing gives a boost to its development. During this period, the number of customers choosing online shopping and takeaway is gradually increasing.

Hashem (2020) [10] claims that COVID-19 brings positive influence on e-shopping in terms of various customer behaviors, such as shopping frequency, preference of goods and payment method, which provides development opportunity to online selling and promotes the structural transformation of the retailing industry. They also indicate that it is likely to be sustainable trends.

In addition, community retail thrives as a blockade imposed with a series of safety precautions. This model is especially suitable for the case of community and street lockdown. Most takeout companies and stores provide "contactless delivery" and send to a specific place according to customer requirements.

For example, Freshhema is a new retail business under Alibaba, serving as a combination of supermarket and restaurant, which provides online and offline services with diverse products including vegetables, meat and live seafood. It allows free delivery of around three kilograms, sending to door within half an hour. Customers are also able to book in advance and choose a delivery time. During the pandemic, more and more people purchase fresh ingredients and semi-finished foods by takeaway software or supermarket application for three meals, thus, its sales grow 185.7% with 87.6% growth of store number in 2019 [11].

Similarly, Meituan is a Chinese retail business for consumer products as well as other retail services, concentrating on dining with delivery, entertainment and etc. It is regarded as the most common application for Chinese to call for takeout. Especially, people no longer want to have a meal in a restaurant and reduce the

frequency of dinner parties after the Corona virus disease outbreak.

Stock price, the most incentive index of people's confidence, helps directors and investors of a company to

make a proper decision for development. The closing stock price of Meituan is 3690.HK shows an upward trend from 101.9 HKD on 1st December 2019 to 355.8 HKD on 1st January 2021, indicating satisfying operating conditions and future expectations [12].



Figure 3 Close stock price of Meituan 3690. HK in the range of 16:08-16:10 on trading days during pandemic (Source: from Yahoo Finance).

## 6. THE STRATEGIES FOR THE RETAIL INDUSTRY

Consequently, the new opportunities and benefits of the epidemic brought for the development of a new retail industry cannot be overlooked. In this situation, effective and efficient businesses strategies are essential factors. Firstly, promoting retail industry structure adjustment and developing new retail is more suitable for the further market to meet the new needs of the consumers under pandemic. As increasing people start using online consumption, businesses might adopt “ the combination of the online and offline channels ”[13] and foster innovative industries to redistribute resources utilizing proportion, which not only aims at different customer groups but also expands coverage of stores. It ensures steady sales with sustainable growth for the long-term operation of stores.

Meanwhile, by investing in software and hardware technology to accelerate the digital processes, thus sellers are capable to improve adaptability for changeable markets and resist risks [14]. According to “McDonald's Reports Second Quarter 2020 Results” , Chris Kempczinski (McDonald's President and Chief Executive Officer) concludes that their former investments and strategies for their delivery and the digital system works well in the epidemic period, showing its advantages to handle uncertain challenges [15]. Meanwhile, a takeaway delivery company Just Eat,

third quarter of 2020 saw a dramatic increase in their take away orders thanks to working from home and avoiding outside contact. And 800 McDonald's restaurants and 300 Greggs outlets joined its online platform to meet customers' needs [16].

Secondly, the significance of high exposure with a positive brand image cannot be underestimated, especially under covid-19, which helps to reduce adverse influences on sales of this crisis as well as build customer loyalty, improving company competitiveness. As the decreasing frequency of offline consumption, converting marketing form from physical places to digital one merits consideration for companies. Businesses invest more in network marketing like advertorials banner and in-game advertisements, instead of billboards on the underpass or shopping mall and other indoor and outdoor advertises. Moreover, click rate and page view of advertisements make businesses ensure their target audience and consumer satisfaction for the goods. For instants, e-commerce live streaming and online shopping become increasingly common, therefore hiring a crowd of live streamers and influencers who have millions of followers for interactive advertising of their goods at a specific period is likely to boost sales thanks to the fan economy. Out of credit and idolatry for influencers, the goods and services gain consumers confidence indirectly, inspiring their desire to purchase. Tmall, a website for business-to-consumer online retail, engages many vloggers to promote and advertise the quality of products and considerable discounts in their videos during SinglesDay

Shopping Festival. LAWSON, a convenience store in Japan and China, invites some new media individuals and groups to its new products conference and gifts them various refreshments for taste assessments. In this way, LAWSON not only increases the reputation by forwarding We Media and online social networking, but also contacts with the advises from those who understand current fashion deeply.

In addition, one of the keys to a successful new retail business is an enjoyable user experience, being customer-centered. Definitely, the most disadvantage of online selling is the lack of physical shopping experience, which means that corresponding solutions are required to offset connection with digital customers. AI technology like facial recognition for cosmetics products improves the sense of use [17]. Live broadcast improves the sense of interaction with sellers who answer questions from intended customers timely. Online questionnaires of expectation for new products improve the sense of participation. An efficient and responsible after-sale service, such as a quick response rate and a convenient process for replacement or refund, also increases satisfaction. Therefore, retail shops are likely to cultivate loyal customers who are willing to purchase repeatedly.

Lastly, equally important to this new retail industry, holding old customers meanwhile appealing the new benefits long-term development. Producing massive data analysis model on the basis of consumption behaviours and frequency forecasts latest popular taste as well as future market preferences. It helps them to make proper decisions for product innovation, meeting the market demand even leading trends.

Moreover, only quality assurance and bright brand characteristics are guarantees for loyalty, ensuring non-substitutability with other companies that produced substitutes.

## 7. CONCLUSION

In conclusion, this essay has estimated the contrary influence on the traditional and new retail industry under Covid-19. It is clear that pandemic is a window of opportunity for new retail development because of alternative growth, although physical retail took a hit in terms of sales and inventory turnover rate. Therefore, the essay states four strategies for sustainable growth, including industry structure adjustment, creating an enjoyable user experience and producing a massive data analysis models to predicting the future markets.

Undeniably, this essay has some limitations. As economics is unlike science fields, the real effects of every forecast and strategy probably fail to be confirmed by experiment or formula derivation, which could only be tested via monitoring the response of the market continuously. In addition, this essay has not assessed the rate of return of these strategies and the profitability of

new retail trade after the pandemic, leading to over-investment at the current stage. Future studies may evaluate future performance and the possibility of the retail industry with consumer reply.

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