

# Chinese consumers embrace a new normal

post Covid-19  
consumption  
trends analysis

# Introduction

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The Covid-19 crisis has had a global impact on consumer spending, shifting short-term purchase patterns, and bringing long-term changes to the way we work, socialise and shop. With offline shopping restricted during lockdown, e-commerce adoption has accelerated: retail sales in China fell by 2.8% year-on-year during May, while online sales of physical consumer goods rose by 15.6% in the same month. According to the National Bureau of Statistics for China online retail sales reached 5150.1 billion yuan in the second quarter of 2020, a growth of 7.3% from the same quarter in 2019. Online retail sales of physical goods accounted for 25.2% of overall sales of consumer goods. Meanwhile, the China Internet Report 2020 shows that as of March this year, Chinese internet users were spending an average of 7.2 hours online every day, a sharp increase from 5.6 hours a day in the previous year.

Throughout this period, demand for imported goods has remained high. Data from Tmall Global – Alibaba’s cross-border e-commerce platform – shows that purchases of goods from overseas were up 40% year on year in June. During the May 5 Shopping Festival, sales of imported goods were up 239% on the previous year and during Alibaba’s 618 Mid-Year Shopping Festival, we saw a 43% surge on imported product sales, compared to 2019.

Several sectors have proved particularly buoyant. The crisis has brought with it a renewed focus on personal wellbeing. Key growth categories include Beauty & Personal Care and Health & Wellness. Popular products within these categories include organic products and nutritional supplements, probiotics, meal replacements and the rise of the ‘healthy beauty’ trend.

As China emerges from lockdown, we’re seeing a further boost to consumer spending, propelled in part by online shopping festivals, which bring commerce, social and entertainment together to incentivise spending. This presents a significant opportunity for British brands of all sizes to capitalise and connect with a new audience. Indeed, we saw a £7 million increase in the value of goods exported from the UK to China from March to April.

The crisis will have proved an unsettling time of disruption for many businesses in the UK, but there remains a great opportunity for businesses to use digital tools and platforms to meet growing demand for high-quality British products and brands in China. And in doing so, to support their recovery from the current crisis and return to growth.

# Encouraging the recovery of consumer spending in China

There are several notable and novel strategies in play in China to encourage consumer spending on everything from groceries to luxury goods and propel the post-Covid economic recovery.

## Supercharged shopping festivals



While shopping festivals have formed a key part of China's consumer psyche for more than a decade, this year's 618 mid-year shopping festival saw brands pull out all the stops in an attempt to reignite consumer spending. This was the biggest sales event since the outbreak of Covid-19 and showed the clear strength of China's online retail consumption, leading to a record-breaking year.

Brands including IKEA, Coach and Calvin Klein went beyond using the e-commerce platform to sell products, and embraced technologies such as livestreaming, augmented reality filters for hair and make-up and even branded games, to reconnect with consumers and generate growth in the wake of the pandemic.

These events are far more than just a sale – they represent key cultural moments for brands to strengthen their relationships with consumers through increasingly interactive experiences. Gamification is a key trend that took hold at this year's 618. Estee Lauder launched its own digital train carriage, which transformed into a stylish online boutique, allowing customers to earn points through completing tasks such as following the brand's flagship store or clicking through to landing pages to learn more about its loyalty programmes, to access further perks.

Boden was particularly successful during this year's 618 event. Having seen more than double the number of visitors than the previous year in the run up to the event in May, the retailer went on to achieve a trade uptick of 70% in the first hour of warm up day sales, compared to this same hour last year.

Although restrictions have lifted allowing consumers to return to newly reopened physical stores, online shopping experiences will remain a key part of the retail landscape, and a key opportunity for brands looking to maintain a connection with existing customers, and extend reach to new audiences.



## Coupons coax consumers back to spending

China issued \$1.71 billion worth of coupons to spur on consumer spending post lockdown, and stimulate economic growth in a post-crisis world. The digital-coupon model is especially effective in China – the country’s internet and mobile penetration ranks among the highest in the world, with smartphones as the top internet access device. Chinese consumers are also particularly well-versed in using digital wallets – in 2019, more than 81% of the country’s smartphone users used mobile payment apps.

These coupons are more than just vouchers – they are digital, time sensitive coupons that are often accessed through a ballot system, seeing millions of consumers set alarms across China in an attempt to get to the front of the queue. Heightened excitement and demand for these coupons helps to fuel further spending.



Crucially these coupons create what is known as a multiplier effect, whereby the government’s outlay of coupons is far outweighed by the spending they incentivise. In the Chinese city of Zhengzhou, for example, 75 million coupons have yielded RMB550 million in spending.

## Revenge buying

Although not incentivised, there is a growing trend for ‘revenge buying’ – as consumers indulge in sprees to make up for time lost in lockdown. This phenomenon is particularly evident in the luxury sector. Tmall’s Luxury Division reports that consumers placed over 400,000 orders of luxury goods on May 20, an unofficial romantic holiday that’s celebrated in China as the date said aloud in Mandarin sounds close to “I love you.” Total luxury spending increased by 61% year-over-year.

While this is now a truly global phenomenon, with queues extending around the block for some physical stores, this trend is firmly rooted in China – clearly exemplified by the experience of Hermès’ Guangzhou store, which reopened recently and took \$2.7 million worth of sales in a single day!

# Digital transformation and technology trends

The pandemic has had a lasting impact on the relationship between consumers and brands across the globe, and most notably in China, accelerating existing innovation in digital tools and technologies to engage consumers, who continue to look for unique experiences. The period of lockdown has forced brands to build on these trends and become even more creative in how they market to and serve consumers.

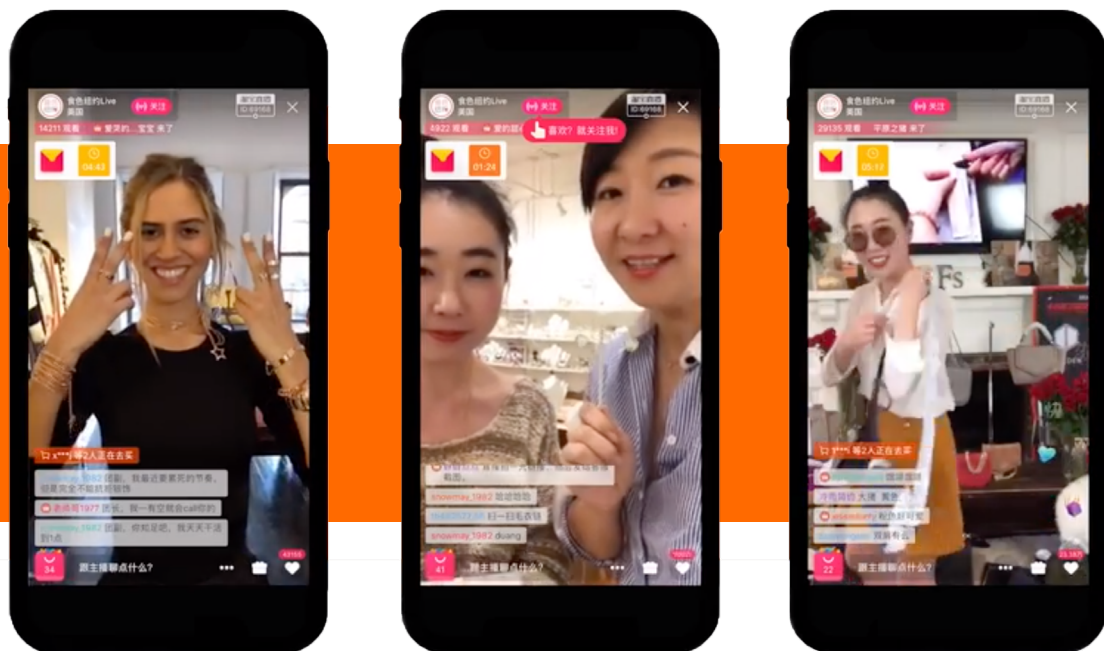
The trends below are already prevalent in China and provide an insight into the likely direction of travel for consumer behaviour in other markets.

**Livestreaming** – Prior to the pandemic, most livestreaming platforms in the West were focused on gaming and entertainment. During lockdown however, there has been a surge in livestreaming, leading to 45% growth in the sector in the UK between March and April, with content creators keeping us entertained and connected.

This means of engagement, which blurs the line between entertainment and shopping, creating a new phenomenon known as 'shoppertainment', was already prevalent in China as the go-to option for consumers when seeking out new products and deciding on what to buy, and the primary medium for key opinion leaders (KOLs) to engage with their audience. China has the largest livestreaming market in the world – expected to reach around 112 billion yuan in 2020.

During a livestream, fans can ask questions about the products, post comments to the hosts and even send virtual gifts as a token of appreciation while watching the livestream, in a three-dimensional, interactive and social shopping experience. This delivers on consumer demand for a unique experience, rather than a transactional shopping moment. With this in mind, it's more important than ever for brands to break down the silos between online and offline – livestreaming offers the perfect solution.

Taobao Live, Alibaba Group's livestreaming platform, saw a sharp rise in brand activity over the course of February 2020 as merchants slowly resumed their operations (following lockdown) and looked for ways to reach consumers. In fact, at the beginning of the month, livestream sessions



on Taobao Live had increased by 110% compared to the same period last year. Furthermore, a McKinsey report has found that 38% of Chinese consumers say they have used livestreaming more since the start of the crisis.

Alibaba's online consumer retail platform, AliExpress has recently launched AliExpress Connect – a new platform to help influencers worldwide digitalize and scale their businesses. Through AliExpress Connect, influencers can partner with AliExpress directly, as well as with brands that are selling through the marketplace, enabling influencers worldwide to generate new income streams

and for brands to boost their businesses, allowing all parties to benefit from and embrace the shoppertainment trend.

**3D shopping feature** – During May 2020, Tmall officially launched its 3D shopping feature – an immersive and interactive e-commerce experience that replicates many of the elements of in-store shopping. With just their phones, consumers can browse through 3D showrooms of more than 100 brands. Among those brands is IKEA, which has unveiled an online version of one of its Shanghai stores, complete with furniture-filled showrooms and the retailer’s signature walkthrough design.



This is a great example of innovative, new tech helping retailers with brick-and-mortar stores that are still shuttered or otherwise impacted by the coronavirus outbreak.

**Augmented reality** – AR technology has become increasingly important following the pandemic – particularly for brands in the fashion and beauty sectors. Through Tmall’s upgraded storefront, brands can personalize their flagship stores to include more interactive features, like mobile games or augmented-reality technology that allows consumers to virtually try on makeup. Per Tmall, brands that tapped AR-enabled features, Estee Lauder for example, have seen consumers spending more time on their product pages, staying from an average of 30 seconds to longer than 70 seconds.

There is a huge opportunity for premium brands to tap into the power of technology in a post-Covid landscape, as consumers mark their return to spending confidence with a hunt for higher-quality products. With young luxury consumers driving the recovery of the sector, it’s even more important that brands can engage with consumers online and leverage social commerce for brand discovery as well as sales.

**Gamification** – Part of brands’ creativity in engaging fans can be seen through the use of AR-powered mobile games – the ‘gamification’ of the shopping experience. For merchants on Tmall, there are what are known as ‘brand-loyalty scores’, where consumers collect points for any and all actions that are made in a flagship store, from browsing products and adding items to their shopping carts to playing an interactive game and leaving a review. The higher the score, the more benefits they earn in the brand’s “Fan Club,” where they can also read branded posts, watch videos and see other options to interact with the brand to earn more points.

## Conclusion

Covid-19 has accelerated and amplified many existing trends in China across both consumption patterns, and shopping behaviours, preferences and expectations. With a strong return in spending, Chinese consumers have become even more important to international companies as a source of growth.

China can seem a distant and daunting market for British businesses, whether they’re new to exporting or not. Brands should be buoyed by the fact that consumer confidence and demand is there and translates into enormous growth potential to support their emergence from and stability following the crisis. There really is no such thing as ‘too small’ for China – a product that might seem like a niche market in a brand’s home territory or in another smaller market can quickly become a significant and realisable opportunity, when it aligns with consumer demand and meets the scale of the audience in China.