



Unigrains – In Brief

E-commerce is the big winner of the Covid-19 upheavals in the Chinese food sector

This note was produced with the support of Mr. Li (France Export Céréales and Senior Advisor China for Unigrains) and Unigrains’ international network and as such was enriched by feedback from players in the field (experts and investment funds). It aims to provide avenues for reflection on trends that appear to be taking shape and will be confirmed in the coming months. It does not address the Hong Kong market.

China moves out from lockdown A few insights at the end of May

China, the first country to be hit by the coronavirus epidemic, was also the first to start exiting from lockdown from mid-March, two months ahead of Europe.

To date, schools and universities are gradually reopening. Karaoke bars, theatres, and cinemas remain closed, however, and restrictions remain in public places (temperature screening, QR code checks of a person’s risk level for coronavirus), as well as on travel within China. In addition, for fear of so-called “imported” cases, any foreign national entering the country is subject to a 14-day quarantine. Chinese airlines’ passenger flights are also limited to just one rotation per week and per country.



On the macroeconomic front, the first quarter was disastrous, with GDP contracting by 6.8%. Industrial production started to pick up in April (+3.9% year-on-year according to NBS national statistics), but domestic demand failed to materialise. In response to the crisis, the Chinese government strongly encouraged companies to avoid redundancies and launched a RMB130 billion support plan in late March, with the main objective of limiting unemployment. The official figure is 6% in April, but this rate only concerns cities and does not include migrant workers who have not returned to their workplace. At the end of May, the government announced that 35 million people will receive training in two years via unemployment insurance to help them find jobs. It has also officially reauthorised itinerant trade in major cities and on roadsides.

In this global outlook, agriculture and agri-food, considered as strategic, have been preserved. Food consumption has proved resilient, but the crisis has changed purchasing behaviours.

The recovery in out-of-home foodservice remains patchy

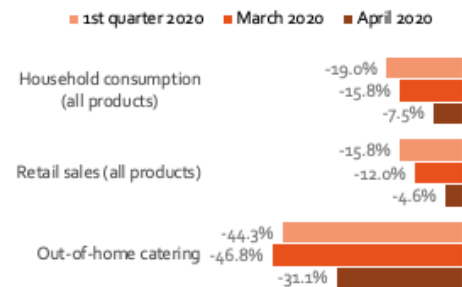
According to figures published by NBS, out-of-home catering revenue fell by 44% in the first quarter of 2020 compared with the same period in 2019. Full-service restaurants (75% of catering revenue according to Euromonitor) were the most impacted. The hotel industry, which has seen its occupancy rate plummet with the control of travel in major cities, and high-end restaurants were particularly hard hit by the crisis.

Since April, restaurants have been gradually reopening, but activity is far from having returned to normal. Most customers order online and pick up meals or have them delivered. Most on-site consumption takes place outdoors.

According to NBS statistics, in April, out-of-home catering revenue was down 31% year-on-year. Starbucks reported that revenue for April was 35% lower than in 2019, after having fallen to -90% in February at the height of the crisis.

Large Western-style fast food chains are expected to be the most dynamic in this recovery period. They benefit from their reputation and are better organised and less dependent on indoor dining. With the crisis, some chains also accelerated their digitalisation and have organised themselves to develop their home delivery business. The gradual reopening of schools and universities is also boosting catering.

Change in household consumption in early 2020 vs. same period in 2019



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Food purchases are shifting towards modern retail and especially e-commerce

With the collapse of out-of-home foodservice and the closure of many wet markets (outdoor markets for meat, fish, fruit and fresh vegetables), food spending has shifted to modern distribution channels.

In major cities, the restriction measures, which have made it much harder for people to travel to stores, and the fear of the virus have led to a significant drop in store footfall.

E-commerce has taken over. According to NBS, online sales of food products, all channels combined, increased by 33% in the first quarter of 2020. While this sales method is already highly developed in China (more than 20% of retail sales of physical products in 2019), the crisis led to a clear acceleration in the food sector. Faced with the risk of virus transmission, contactless delivery has also become widespread: the parcel is left in front of the home and the service provider makes a call to confirm that it has been properly received.

According to a Kantar consumer survey, in addition to stockpiling long-life products (rice, instant products, canned meat and fish, etc.), Chinese consumers have prioritised online purchases of fresh products (particularly fruit and vegetables). These are very complex to manage in terms of logistics and have been one of the major challenges of food e-commerce since the onset of the crisis.

Food e-commerce: a complex landscape, that is evolving with the crisis

Pure player online sales platforms have benefited from this trend in favour of food purchases. Alongside the two giants, Tmall (Alibaba) and JD.com (linked to Tencent, creator of the leading social network WeChat), are other smaller, more local players, some of which specialise in food.

Sites with a strong focus on fresh produce, such as MissFresh (linked to Tencent) and DingDong Maicai have benefited from the momentum of these ranges.

The other channel is the so-called O2O concept (online to offline), which consists of organising home delivery from physical stores.

This concerns new high-tech hybrid store chains designed to optimise the synergy between physical retail, order preparation and express delivery. Brands such as Hema (Alibaba), 7 Fresh (JD.com), Ella Supermarket (Meituan) and Super Species (Tencent) have strengthened their fresh product offering and expanded their customer base.

This also concerns traditional supermarkets, which have developed online sales from their own sites, but also via the platforms of companies specialised in express delivery with which they are in partnership: Meituan (linked to Tencent), Eleme (a subsidiary of Alibaba) and JD Daojia (controlled by JD.com) are the biggest.

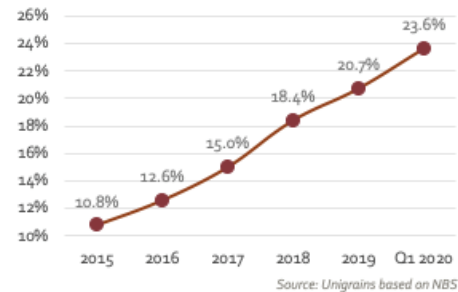
While supermarkets seem to have made up for the drop in store traffic through online sales (revenue up 1.9% in the first quarter of 2020 according to NBS), the two leaders in express delivery have been hurt by the crisis due to the loss of the majority of their customers in the foodservice sector during the lockdown. In the 1st quarter, Meituan's food delivery sales were down 5.4%. This fall reached 8% for its main competitor, Eleme, which claimed to have regained growth in April. Conversely, JD Daojia, which stands out by its activity focused on supermarkets (Walmart, Yonghui, CR Vanguard, etc.), increased its sales by 2.5 over the period.

One striking fact of the crisis is the rise of online sales of food products directly on the social networks (particularly WeChat), with simplified processes compared with traditional platforms specialised in online sales. According to a Kantar survey, 35% of respondents bought fresh products on WeChat in February 2020. This trend is accelerating the spread of e-commerce outside large cities and the acquisition of new consumers. Food stores and brands are increasingly interested in the growing popularity of this channel.

In this complex e-commerce landscape, the current period is exacerbating differences in service levels between providers and raising questions about the most efficient business models. The challenge after the crisis will be to hold one's ground against the competition, but also to be profitable, which for many players will remain a difficult task.

With the gradual return to normal, store traffic is on the rise again and some wet markets are starting up again (including sales of live poultry). But the pre-existing trend of booming online sales is likely to emerge stronger from the crisis. **Food e-commerce stands out as the big winner of this period and is becoming an increasingly strategic channel for selling on the Chinese market.**

Change in market share of Chinese e-commerce
All physical products (food and non-food)



Growth in e-commerce in China
in early 2020 vs. same period in 2019

