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**Report Name:** COVID-19 Drives E-commerce in China

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**Report Highlights:**

The spread of COVID-19 has generated new approaches to serving China's 1 billion adult consumers. China's national and local governments as well as industry have all enacted measures to open commerce when public health has required lockdowns throughout most of the provinces and cities in China. While traditional supermarkets saw some growth in their business as consumers were unable to dine out, the e-commerce industry attracted more users and generated double and even triple sales value for fresh produce and other online food items. Quick problem solving and access to capital have allowed large e-commerce companies to meet consumers' changing and growing demands, including offering contactless delivery. As national, regional and urban governments vow to upgrade consumption in the country, all forms of e-commerce will attract more investment nationwide.

### **An unusual Chinese New Year, never to be forgotten**

During the last week of January, Chinese companies wrapped up business in preparation for the 2020 Chinese New Year, cutting down inventory and postponing procurement orders while staff departed for their home cities for the long, two-week holiday. This reduced delivery service to a minimal level.

Against this backdrop in late January the nationwide lockdown went into place to control the spread of COVID-19. This created unprecedented demand in online purchase and delivery service. This development further strengthened the lead of the largest e-commerce companies who maintain their own courier services and could obtain special government permits to make deliveries despite the lockdown. In the first quarter of 2020, Pinduoduo reported 43 million new active users, and Alibaba reported 15 million. E-commerce companies profits also grew; Pinduoduo's revenue increased by 44 percent while Alibaba and JD.com reported increases of 22 percent and 21 percent respectively.

On the other hand, the pandemic devastated small e-commerce companies that did not sell daily necessities or medical supplies. Eighty percent of these small businesses (defined by having less than 50 staff) recorded a drop in sales.

Already operating with low inventory over the Chinese New Year, companies both large and small, who received orders during COVID-19 had difficulty securing supplies and making delivery to their customers. Suppliers were closed and most courier services had to be put on hold. One report by an e-commerce research company, Paidai, stated that 47 percent of e-commerce companies both large and small complained their biggest challenge was lack of supplies. Even as some cities resumed economic operations in late February, suppliers could not find enough workers to resume production. Industry analysts projected that with minimal or no sales, these small e-commerce companies would be unable to survive more than two months, leading to even more consolidation.

### **A view from the other side of quarantine**

The lockdowns, which ranged from four to eleven weeks depending on location, and fears of catching COVID have impacted consumer behavior and retail food marketing in some noticeable ways across China.

#### **1) Contactless purchases, already up, will continue to grow**

During the peak of the pandemic control measures in China, movement was extremely limited, and many of China's 1 billion adult consumers turned to contactless e-commerce platforms to order staple groceries. Though China is gradually returning to normal, consumers remain concerned about a second wave of the outbreak and are continuing to try to minimize social contact which will continue to support online orders. Furthermore, at the writing of this report, health monitoring measures – including getting temperatures checked and the QR code on your health monitoring app scanned - are still in place before entering restaurants, traditional wet markets and supermarkets. Online ordering can save this hassle and e-commerce experts are optimistic that a large percentage of these new e-commerce consumers, who saved time and received quality food products during the lockdowns, will continue to buy online.

## **2) Online produce orders increase**

Online sales of fresh produce gained momentum during the COVID-19 lockdown. Consumers' focus on healthy eating to support immune health kept demand for produce high. According to the E-commerce Research Center in Zhejiang, in 2019, China's transaction of fresh produce was RMB 322 billion (\$45 billion), a 65-percent increase from 2018. This growth is expected to continue.

In early 2020, online platforms that sell fresh produce and staple foods saw the biggest gains in online sales. Grains, meat, poultry, eggs, dairy, fruit, vegetables, and frozen food were the most sought-after products. Some online retailers of fresh produce reported over 300 percent growth compared to the same period last year. In the first quarter of 2020, sales on JD.com of poultry, eggs, and meat quadrupled year-on-year; sales value of vegetables tripled year-on-year; and sales value of grain and edible oil increased 80 percent year-on-year. For some smaller players, sales in February grew over 80 percent when consumers first sought use online services for all their daily needs. Buying in large quantity or in bulk became common practice during the lockdown as people sought to reduce their number of grocery delivery/pickup trips to once a week or even fewer to avoid contact with strangers. JD Home Service, Suning Fresh, Dingdong Veggie, Hema Fresh, Meituan Vegetables and Miss Fresh became very popular during the COVID-19 outbreak in China. In an effort to meet soaring customer demand, some traditional brick and mortar stores partnered with JD Home Service, Meituan Veggies, or Suning Fresh to make deliveries for them.

## **3) Consumer profiles diversify**

Though e-commerce was previously commonplace among younger consumers, during the pandemic, more older adults began using online ordering for retail foods. Miss Fresh, a mobile app selling produce and meat, saw new users age 40 and up increase 237 percent during the pandemic. Some sources suggest ninety percent of these older customers learned how to buy groceries online from their teenage and adult children. FAS China believes that overall positive consumer experiences with delivery of quality produce during the pandemic will lead these new consumers to continue to shop for food online even after the recovery from the pandemic.

## **4) Partnering with suppliers**

Movement restrictions put in place to limit the spread of COVID-19 also exposed weaknesses in the supply chain as some e-commerce outlets had early challenges of getting product from rural growing areas to city consumers. Instead of the traditional "buy and sell" relationship, e-retailers are examining ways to build closer partnerships with their suppliers by understanding each other's market needs in their production, supply, transportation, delivery to promote sales. Successful e-commerce depends as much as on stable supply as on delivery capabilities. Large scale and vertically integrated companies can make enhancements up and down the supply chain whenever necessary. However, for small players, supply chain challenges could spell the end of their business.

On the other hand, traditional suppliers used the pandemic to explore expansion into the online business as well. In North China, some suppliers and wholesalers developed e-commerce options either by partnering with major e-commerce platforms like Meituan or JD or trying to expand sales via WeChat.

COVID-19 also exposed how supply challenges around the world could impact Chinese imports of foreign products. In February, both major and niche e-commerce platforms encountered problems with some imported products being out of stock because of reduced shipping. For imported products, the

national government is encouraging businesses to set up warehouses overseas or, at the very least, to explore possibilities to share overseas warehouses allowing shippers to consolidate products to a single point of storage. These efforts seek to reduce the costs of shipping and expedite the importation of foreign goods.

### **5) Last mile home delivery**

During the height of the pandemic, China's online food retailers with in-house delivery teams were able to share resources. Hema, a large food retailer, developed a "shared staff" scheme to fulfill its higher number of online orders. By partnering with chain restaurants which had a large number of employees to pay during the lockdown, Hema was able to use their staff to deliver grocery orders. Sources reported that Hema signed contracts with over 40 companies to share 5,000 employees during the COVID-19 crisis and this gave Hema the capacity to fulfill their delivery guarantee of 30 minutes. Hema is now developing a platform to make this "shared staff" program available to different companies after the crisis.

Restaurant take-out delivery giant Meituan, is also seeking ways to limit its headcount in delivery service. Their fresh produce division, Meituan Fresh, is reportedly testing driverless delivery vehicles for suburban areas.

The demand for quick and convenient ready-to-eat foods was already growing prior to the COVID epidemic as young generation workers and families sought ways to save time preparing meals. With movement restrictions, families then became forced to cook three meals a day at home and clean, ready-to-cook foods grew in popularity. Hema set up a "3R" Division to focus on differentiating itself from other e-commerce competitors by deepening its competence in foods that are Ready to Cook, Ready to Heat, and Ready to Eat (3R). Since reopening, more and more working people throughout China have started bringing their lunch to work because they are in the habit of home cooking and want to ensure safer food hygiene.

### **6) Live streaming became a must-have marketing tool**

To kill time during the lockdown, many consumers turned to video gaming and live streaming. With more time being spent on phone screens, e-retailers see live streaming as a critical tool to direct people to their storefronts. On February 10<sup>th</sup>, one internet celebrity, Li Jiaqi, hosted a three-hour sales show featuring products such as rice noodle and make up which attracted 1.6 million viewers with 25 product lines to be completely sold out in seconds. On March 16<sup>th</sup>, 100,00 egg-yolk puff pastries were sold in less than one minute by the number one internet sales celebrity, Wei Ya. Internet reports indicated that total food sales generated by the top two live streamers, Li Jiaqi and Wei Ya on the May 17 "Snack Festival" promotion including tree nuts, convenient foods and dried fruits, etc., reached RMB 740 million (US\$ 105 million).

Competition among the big e-commerce players is also heating up. To win back some shares dominated by Taobao, JD.com, Suning and Baidu recently announced that they will invest in the live streaming business. According to e-commerce observers, real time video promotions on Tiktok, Kwai and other newer applications will become indispensable to generating major sales in 2020.

### **7) Rural e-commerce is set to take off... with government support**

COVID-19 hit China's rural economic areas hard in the early days as lunar new year travels and intercity and interprovince movement controls reduced the number of available farm workers. In some areas, fruits and vegetables rotted in the field or in the warehouse.

On March 28<sup>th</sup>, China's central government announced that they would put more effort in to promoting e-commerce in rural areas by providing more digital business training to local entrepreneurs including operations and sales support. In addition, the national government plans to invest in infrastructure that will support harvesting, warehouses, packaging and cold chain management to improve logistics and delivery services to get agricultural products to larger cities. These efforts will be coupled with policies to upgrade rural consumption by building modern retail outlets and increasing branding and marketing of agricultural products. To provide tools, China's National Radio and Television Administration issued notices to e-commerce platforms urging them to promote sales of these rural areas' agricultural products by using short videos and live streaming services.

### **8) Expanding Cross-border E-commerce**

Like traditional business, cross-border e-commerce was impacted heavily by COVID-19 when flights and shipments were cut, and imports and exports of goods were restricted in some countries. As consumers dialed back luxury and recreational spending, Chinese domestic businesses were squeezed hard to generate enough cash flow to stay the course. Many Chinese companies in border and coastal areas ended up turning to Belt and Road countries for new business opportunities because those countries' proximity to ports, tariff advantages and relative stability of trade and tariffs.

On April 7<sup>th</sup>, as the economy slowly reopened, the State Council of China announced it would add 46 new pilot cities for cross-border e-commerce, bringing the total to 105. The central government also announced its intention to support shared warehouses for cross-border e-commerce in foreign countries. This move signals the central government's confidence in the model and support for further development.

### **The China market is resilient, and e-commerce can only grow**

China was the first country hit hard by the pandemic. China's national and regional measures to control the virus and promotion of consumer-friendly technology accelerated changes that propelled demand for e-commerce. Similar trends and consumer behaviors can be found elsewhere globally. With more e-commerce users, more acceptance and more investment, FAS China strongly believes that e-commerce channels will continue to diversify and multiply as well as present immense opportunities for U.S. exporters to the world's second largest economy.

In light of the changes noted above, U.S. exporters should consider:

- Expanding marketing strategies through online platforms. – Internet celebrities livestreaming promotional efforts are built on strong partnerships and data. When choosing partners in China, understand where they get and how they can use their data for your success, as well as their relationships with Key Opinion Leaders who align with your brand.
- Highlighting products' health benefits or qualities and '3R' preparatory ease. – Consumers increasingly choose products that meet health and nutritional needs as well as those that are

Ready to Cook, Ready to Heat and Ready to Eat. These dimensions should be front and center in your message to encourage them to choose your product.

- Doing due diligence to choose the right partner(s). – Understand your partners networks and how they work to minimize supply disruptions and their expectations of you. Chinese business relationships are increasingly focused on strong relationships; this is important with their relationships in country and for you to invest in your relationship with them.
- Distribution channels' opportunities. – Centralized or overseas warehouses may offer opportunities to reduce costs and avert some supply chain disruption. Chinese government encouragement to this model will undoubtedly help its adoption.

For more information about e-commerce in China, you may also refer to GAIN Reports: [2019 Exporter Guide](#), [2019 Retail Foods](#), and [Using the Cross-border e-commerce channel to increase US Food Imports to China](#).

For more information, please contact FAS China Agricultural Trade Offices:

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#### **Attachments:**

No Attachments.