

**Title: Business Strategies to Survive the Impact of COVID-19 During CNY**

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## **Introduction**

Chinese New Year (CNY), also known as the Spring Festival of Lunar New Year in the Chinese calendar is widely celebrated in many Asian countries such as China, Malaysia, Taiwan etc. Part of this festival's culture consists of spending on food and beverages, new clothes, decorations and others to prepare for the festive holiday! However, due to the outbreak of COVID-19, many businesses in countries such as Malaysia are forced to stop operating weeks before CNY due to COVID-19 lockdown restrictions. This has caused a fall in sales for firms and stores. Since the start of the pandemic last year, not only businesses are struggling from several unforeseen circumstances, but the arrival of CNY also brings significant impact to businesses that have close partnerships with manufacturing companies. Therefore, it is not surprising that many of them are facing financial difficulties this CNY. To curb the situation well, entrepreneurs are suggested to firstly understand clearly the challenges faced in this situation, then apply effective solutions to solve the problems faced.

## **Impacts on businesses during CNY under the pandemic**

### *Manufacturing disruptions and shipments delay*

CNY can significantly impact firms and logistic companies if they are unaware of the consequences of the festival towards the supply chain. Though most Chinese manufacturers will shut down for at least 2 weeks in light of the CNY celebrations, many workers will travel back to their hometowns to reunite with their families as most of them are migrant labourers. Due to the COVID-19 outbreak, some of them will even choose to leave the workplace early as the duration of self-isolation is taken into account so that they have enough time to spend with their loved ones. Also, in some scenarios, workers might not be available even after the holidays. Hence, other staff have to cover up their shifts due to the lack of manpower which will incur overtime costs. Without any better options, employers are prompted to hire new employees which causes a delay in producing goods that were being ordered before the holidays as new workers need more training time in order to manufacture quality products. As a matter of fact, believe it or not, a lot of employers somehow do not have an accurate answer on the number of their workers coming back to work from the holidays which affects the company's time and efficiency to get back on track. This causes tons of logistic service providers to cancel their shipping due to the current issues from the manufacturers which leads to the delay of shipment and problems fulfilling orders.

### *Offline retailers faced loss in shoppers but growth occurs for online retailers*

Back in January 2020, due to the outbreak of Covid-19, lockdown restrictions were implemented by the China government on commercial streets that are usually crowded.

Supermarkets, shopping centres, restaurants and stores are forced to stop operating which caused a big drop for the total retail sales compared with the previous years.

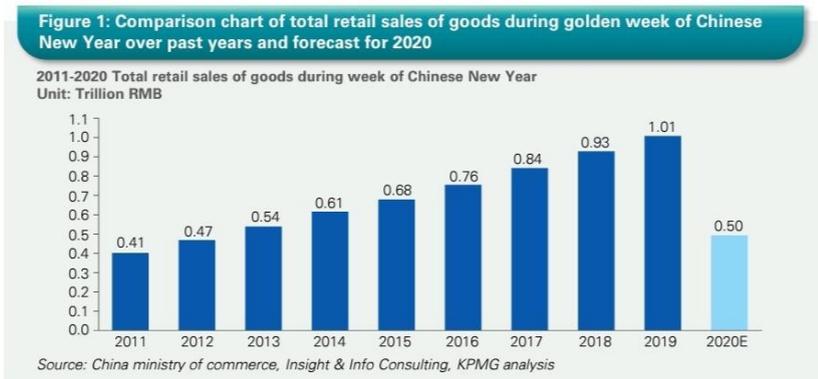


Chart 2: Comparison chart of total retail sales of goods during golden week of Chinese New Year over past years and forecast for 2020

(Source: China ministry of commerce, Insight & Info Consulting, KPMG analysis)

However, Hema (a new retail store of Alibaba) has been busy processing orders online. A report released by Hema states that the supermarket had stocked 500,000 packaged vegetables and 80 tonnes of bulk vegetables both online and offline in Shanghai on the 28<sup>th</sup> of January, which tripled the supply of online vegetables in Beijing. A huge quantity of vegetables were also sold online in Guiyang. Besides, another new retail store, MissFresh, reported a year on year increase of 321% in the transaction of volume nationally for the first 4 days of CNY. Evidently, the impact of the coronavirus pandemic affects different businesses differently.

#### *Decline in FMCG (fast-moving consumer goods)*

Based on a report back in 2020 about the pre-CNY sales in China, though the sales are stronger during this period throughout the whole year, it is observed that there is a decrease compared to the previous years due to the pandemic. In 2019, there is a rise of 15% in FMCG sales 2 weeks before CNY compared to other times of the year. However, in 2020, the impact of the country's lockdown had caused a decline of 24% on CNY week and 41% on the following week. According to prediction, a drop of 12% on the total sales of FMCG is shown for the 4-week period compared to 2019.

## NEGATIVE IMPACT TO TOTAL FMCG MARKET FOLLOWING COVID-19 OUTBREAK



Chart 2: The Negative Impact to Total FMCG Market Following COVID-19 Outbreak

(Source: Kantar Worldpanel A CTR Service in China)

A decrease of consumers by 2% and the decline of 10% on spend per trip by individuals caused a downfall in the FMCG market. To overcome circumstances under this pandemic during CNY, several strategies are used to adapt to the current situation.

### Strategies on surviving the pandemic during Lunar New Year

#### *Effective Planning, A Great Start*

To ensure businesses are not being highly affected by the festive period, early planning for the upcoming CNY will help businesses to reduce significant supply chain issues. For example, if the partnering factories or suppliers are based in China, strong communication and relationship between both parties are encouraged to be fostered as early as possible. It will be quite difficult to establish and earn trust from Chinese manufacturers months before CNY. As high demands on orders are received from various companies globally, new businesses will usually be the last priority for the factories to complete their orders, which will lead to a delay in fulfilling orders. So, firms are suggested to do some research on manufacturers that are capable of handling the CNY demand. Also, communicating well with them on details such as their exact closing dates and expected backlog after the celebrations in advance will give us a better understanding of our capabilities and operations during the busy period.

#### *Learn to Forecast and Be Prepared*

Upon having a clear plan, it will be even better if firms are able to predict the quantity of products needed for the months before, during and after CNY so they have enough inventory to go through the whole CNY period. A simple graph to understand the CNY order pattern is shown below:



Chart 3: The result of March orders being brought forward

(Source: East West)

As observed, this example on CNY orders shows that the orders received in March are being carried forward to both January and February by 50% respectively due to the fact that factories in China usually start to operate around March which is after a month of CNY. Having a forecast also helps suppliers to have a clear vision on the demand of their buyers, which prompted them to have an effective management in the factories like recruiting and training new workers earlier as some of the former employees will choose to leave. The benefit of forecasting can help to prepare the number of inventories beforehand as last-minute orders are difficult for manufacturers to complete during this period. Riccardo Benussi, Head of European Business Development at Dezan Shira & Associates commented that consumers will usually purchase gifts and New Year necessities like food and drinks at the very last minute, so it is best to stock up early on the products as demand will spike up during CNY. Both forecasting and preparing more inventories can be concluded by using a strategic business model, Vendor Managed Inventory (VMI). It is a great way for both vendor and buyer to agree on a fixed level of inventories. Usually, the vendor will request the buyer to provide their sales history and inventories on hand to predict their demand and construct a list of order schedules. This helps to minimise the firm's spending by maintaining a higher efficiency of orders based on the level of inventories and also by regulating the demand shift in the market. Thus, this makes VMI the ideal model for businesses that find difficulties in long lead time during CNY or any other holidays.

### *Avoid unnecessary issues*

It is highly recommended to book shipments with steamship lines sooner for CNY if firms are responsible for the arrangement of logistics from Chinese suppliers. Plenty of shipments are always waiting to leave the ports before everything shuts down due to CNY being operated by the infamous steamship line that will take advantage of this busy season by imposing a high freight rate due to the high demand of stocks boarding a cargo ship. As such, only those who are willing and capable of affording such high costs will be able to have their orders to leave port on time. On the other hand, it is not surprising to hear that some shipments will be postponed up to after CNY. This again shows us the importance of having strong relationships with logistic partners so they will prioritize our needs above other companies during the peak period of CNY. Also, due to the long breaks of factories, try to avoid late orders as mentioned previously due to the fact that many of them will not be interested in accepting new orders because they need to speed up completing their current tasks before the break. Even if they accept late orders, the quality of the products might not meet the required standard due to the limited production time. Therefore, being alert and early are great prevention measures for issues like these.

### *Quality control*

As stated above, the quality of products might be affected due to the pressure on suppliers and lack of duration to produce it. It is advised again for buyers to know their suppliers well, ie. whether or not they have a quality plan of minimizing the potential lapses. The purpose of a quality plan is not only to meet the industry standard of consumers on products but also to verify the standards and procedures of the product's quality. Based on the definition of American Society for Quality (ASQ), a quality plan is defined as "A document or set of documents that describe the standards, quality practices, resources and processes pertinent to a specific product, service or project." A manufacturer is said to have a good quality plan with the conditions of knowing their objectives like the function, cycle time, materials used and cost of the product itself. Besides that, the procedure and task distribution among the workers of the production and testing process are taken into account as well. Furthermore, if any attention needs to be made, notifications will be given to track the process. Thus, a factory that has a good quality plan will help to reduce the risk of having defective stocks, enriching partnerships between firms.

### *Settle payments-in advance*

If you are a foreign business having relations with companies in China, Hong Kong or any other countries that celebrate CNY, bear in mind that it will be hard to settle any payments during the holiday period as little to no transactions can be processed due to the fact that most businesses and banks are closed. As such, it is suggested that all debts are better to be paid before the Lunar New Year as this is not only to avoid conflicts between companies but it is also a good omen in the Chinese culture to settle all debts before the New Year.

### *Strategic Campaigning with Understanding*

Based on the research report by Criteo, shoppers usually start to shop 2-3 weeks before CNY in countries like Singapore, Taiwan and Korea with a sharp rise of sales 2 weeks before the holiday. To engage with current consumers and bring in new customers, marketing experts should be smart enough to start their marketing campaigns and set CNY marketing goals clearly to increase sales. Due to the COVID-19 spread, lockdown measures in some countries such as Malaysia has prompted households to do their CNY shopping online, which increases sales for online stores. As a matter of fact, ramping up digital strategy by advertising products through social media and creating apps for the store will definitely boost up the business during this difficult festive period. Ecommerce giants such as Alibaba, JD.com and more have illustrated the benefit of applying effective strategies in terms of home delivery and logistics as part of their supply chain. A great example of digital shopping is demonstrated by a new retailer, Hema that has been mentioned earlier in this article. A strong growth in the business during the Lunar New Year is observed due to the fact that many consumers choose to use delivery services for their daily meals. With store expansions of this speed, Hema has almost doubled their sales compared to CNY 2019 and also became the first retailer to hire unemployed workers from the F&B industry to manage and deliver deliveries, making this a win-win situation for both parties during these tough times.

## COVID-19 OUTBREAK BROUGHT NEGATIVE IMPACT TO OFFLINE TRAFFIC BUT POSITIVE GROWTH OPPORTUNITIES TO SMALL FORMATS AND DIGITAL COMMERCE

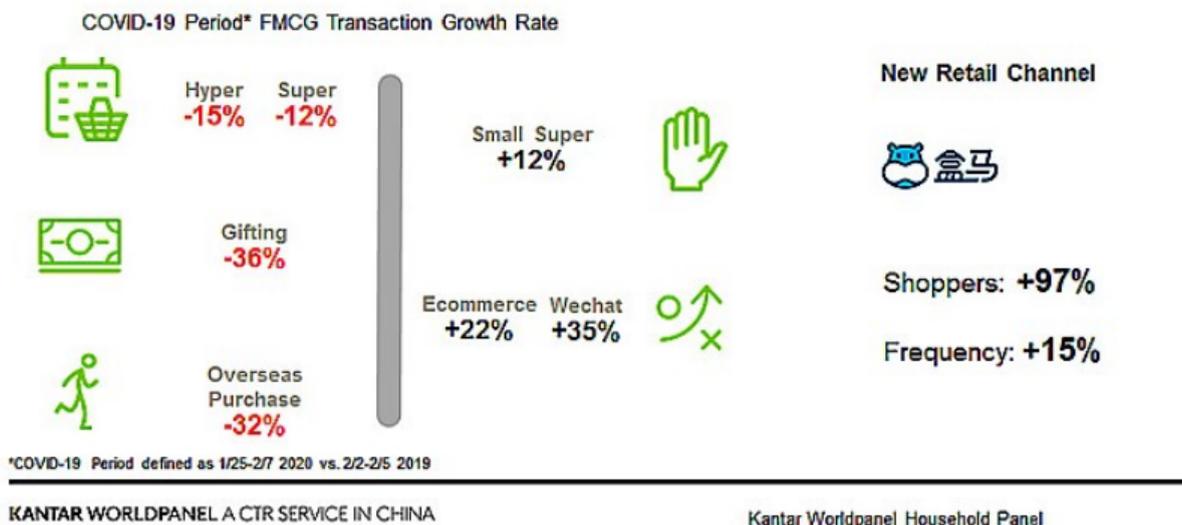


Chart 4: COVID-19 Outbreak Brought Negative Impact to Offline Traffic but Positive Growth Opportunities to Small Formats and Digital Commerce

(Source: Kantar Worldpanel A CTR Service in China)

Furthermore, 'contactless delivery' has been introduced to avoid physical contact between consumers and delivery workers.

### Conclusion

It is expected that firms and businesses who are partners with Chinese companies or factories will undoubtedly be affected during the CNY period especially under the COVID-19 pandemic. With proper planning and execution, there will always be a solution to the obstacles faced by businesses, no matter how challenging they are, as every cloud has a silver lining.

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