When winter comes, prepare for spring

Post COVID-19 global consumer market outlook and supply chain reshaping

May 2020
1. Consumer market outlook

2. Reshaping future supply chain trend and strategy
1. Consumer market outlook
Before COVID-19:

World consumption growth was mostly driven by the US and China, followed by India and Japan.

How key markets’ consumption moves post COVID-19 will shape future global consumption trend.

1 Global consumer trend before COVID-19
Before COVID-19:

What we are used to

A. Trading online

B. Trading globally

C. Individual centric

1 Global consumer trend before COVID-19

Source: Kearney: The Consumer Goods Forum Global Summit report 2017
A. Moving online

E-commerce as % of total retail sales
(2014–2019)

China, South Korea, Japan, and Asia lead in the online trend

The US and Western Europe are moving at a slower pace

Much of the rest of the world is still in nascent stages

1 Global consumer trend before COVID-19

Sources: Passport; Kearney analysis
B. Trading globally

Global trade % of global GDP (1985–2018)

There has been a long globalization movement since the 1980s.

But the world globalization trend has been stagnant since 2008.

Sources: World Bank; Kearney analysis
C. Individual-centric influence model is becoming the global trend

Core values of consumers

1. Trust
2. Authenticity
3. Efficiency
4. Social conscience
5. Responsibility
6. Self-expression

Source: Kearney; The Consumer Goods Forum Global Summit report 2017

1 Global consumer trend before COVID-19
The impact of COVID-19 on the economy is still uncertain.

Recovery scenarios:

- **V-shape**: Quick recovery
  - Experience of SARs
    - 2003

- **U- or W-shape**: Severe 2020 impact, 2021 recovery
  - Experience of financial crisis
    - 2008

- **L-shape**: 18-month downturn, prolonged global recession
  - Experience of economic recession
    - 1930s

Source: Kearney global study
How the world works on it will shape the future of the world

Scenario 1: “A moveable feast”
High international cooperation
High social cohesion

Scenario 2: “The sun also rises”
Low international cooperation
High social cohesion

Scenario 3: “For whom the bell tolls”
Low international cooperation
Low social cohesion

Scenario 4: “To have and have not”
High international cooperation
Low social cohesion

Sources: Oxford Economics, Kearney analysis
Look forward, prepare for difficulties and uncertainties

Global economic output, 2007–2022
(YoY percentage growth)

Forecasts are continually changing

Average 2.0%

2 Global macroeconomic outlook

Sources: IMF; Kearney analysis
Post COVID-19: What are long-term impacts on consumers?

Four accelerated trends

A. E-commerce
B. Purpose-driven consumption
C. Health and wellness 2.0
D. More differentiated consumers

Two new trends

E. In-home becomes the new out-of-home
F. Value focus

3 Global consumer trend post COVID-19

Source: Kearney global study
A. Consumers will be more open to e-commerce post COVID-19

Consumers’ acceptance of e-commerce has increased substantially in the past two months.

Would you do more e-commerce vs. in-shop purchasing? (% of respondents)

3 Global consumer trend post COVID-19

Sources: Ipsos; Kearney analysis
A. … but at a different pace

3 Global consumer trend post COVID-19

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**E-commerce as a % of total retail sales (2019)**

- Asian countries such as China will move from Internet 2.0 to Internet 3.0 (for example, explore online/offline integration and new business model)

- Europe and America may move from Internet 1.0 to Internet 2.0 (getting used to more e-commerce)

- Other underdeveloped countries may enter Internet 1.0 (more acceptance of e-commerce)

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1 United Arab Emirates
2 Middle East and Africa
Sources: Passport; Kearney analysis
A. “Touchless” and unmanned service has gained more opportunities

Perfect Diary

Perfect Diary’s makeup artists all turned into anchors during the pandemic, and they sent live messages to customers through the community. In February, the number of viewers increased by 3–10x compared to January.

In Wuhan, Ele.me (a leading food delivery platform) cooperated with community convenience stores to set up a fresh convenience store to encourage self-collection in the community.

Ele.me

Ele.me

Starbucks

Starbucks members can use the “Coffee Express” function to order online. After receiving the pick-up notification on their mobile phone, customers go to the store, present their “fetch number,” and pick up their order from the “Coffee Express” dining counter.

Starbucks

Starbucks

Hema’s daily sales in mature markets doubled year-on-year, even in some market segments the premium fresh food model has been verified.

Hema

Hema

Sources: Public information; Kearney analysis
B. Purpose-driven consumption is accelerating globally

<table>
<thead>
<tr>
<th>Rank</th>
<th>Description</th>
<th>% of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Recommendations from friends and family</td>
<td>46%</td>
</tr>
<tr>
<td>2</td>
<td>Your doctor/personal medical professional</td>
<td>44%</td>
</tr>
<tr>
<td>3</td>
<td>Doctors/medical professionals (for example, on TV, online)</td>
<td>37%</td>
</tr>
<tr>
<td>4</td>
<td>Scientists</td>
<td>30%</td>
</tr>
<tr>
<td>5</td>
<td><strong>Brands and companies</strong></td>
<td><strong>30%</strong></td>
</tr>
<tr>
<td>6</td>
<td>Government authorities (for example, CDC)</td>
<td>24%</td>
</tr>
<tr>
<td>7</td>
<td>Your pharmacist</td>
<td>22%</td>
</tr>
<tr>
<td>8</td>
<td>Social media you visit/use</td>
<td>14%</td>
</tr>
<tr>
<td>9</td>
<td>Your governor</td>
<td>14%</td>
</tr>
<tr>
<td>10</td>
<td>The president</td>
<td>13%</td>
</tr>
<tr>
<td>11</td>
<td>Newscaster/news reporting that you listen to</td>
<td>11%</td>
</tr>
<tr>
<td>12</td>
<td>Social media influencers</td>
<td>10%</td>
</tr>
<tr>
<td>13</td>
<td>Your mayor</td>
<td>5%</td>
</tr>
</tbody>
</table>

Who do you currently trust when making decisions about products?

Respondents indicated they trusted brands and companies more than government authorities or the news.

Note: April 2020, N=1,006 participants
Source: Kearney Proprietary Survey

3 Global consumer trend post COVID-19
B. Consumers are recognizing brands for their contributions to society

During this crisis, what are characteristics of brands that have distinguished themselves in a positive way?

<table>
<thead>
<tr>
<th>Rank</th>
<th>Description</th>
<th>% of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Manufacturing/researching needed products (masks, ventilators)</td>
<td>15%</td>
</tr>
<tr>
<td>2</td>
<td>Availability of goods</td>
<td>13%</td>
</tr>
<tr>
<td>3</td>
<td>Making a difference/giving back to society</td>
<td>13%</td>
</tr>
<tr>
<td>4</td>
<td>Safety measures</td>
<td>13%</td>
</tr>
<tr>
<td>5</td>
<td>Customer care</td>
<td>13%</td>
</tr>
<tr>
<td>6</td>
<td>Quality of goods/service</td>
<td>11%</td>
</tr>
<tr>
<td>7</td>
<td>It is an essential good/service</td>
<td>11%</td>
</tr>
<tr>
<td>8</td>
<td>Deferring payments/offering free or discounted services</td>
<td>9%</td>
</tr>
<tr>
<td>9</td>
<td>Educating the public/providing accurate information</td>
<td>7%</td>
</tr>
<tr>
<td>10</td>
<td>Treating employees well/hiring extra workers</td>
<td>7%</td>
</tr>
<tr>
<td>11</td>
<td>Delivery/online presence</td>
<td>7%</td>
</tr>
<tr>
<td>12</td>
<td>Good reputation/reliable</td>
<td>6%</td>
</tr>
</tbody>
</table>

Notes: April 2020, N=853 participants. Not shown: Characteristics with response rates under 5%, including Open for business, Affordability, Helping people stay connected/entertained, Popularity, Proximity/ease of use, Authenticity.

Source: Kearney Proprietary Survey
B. ...though social responsibility could mean different focus in different countries

3 Global consumer trend post COVID-19

UN Sustainable Development Goals (SDG) Index (2019)

Common gap in responsible consumption

81.5 81.1 79.4 78.9 75.8 74.5 73.2 70.9 70.6 61.1

Common gap in life on land, life below water, health, and responsible consumption

Developed countries are more interested in recycling and resource sustainability (for example, meat-free)

Developing countries will focus more on wild animal protection and environmental protections

Sources: United Nations SDG index 2019; Kearney analysis
C. Health and wellness 2.0: consumers will look for healthier products

3 Global consumer trend post COVID-19

Will you seek out products that are healthier?

% Strongly agree + Somewhat agree

- Switzerland: 91%
- Mexico: 91%
- India: 86%
- Italy: 85%
- Brazil: 85%
- France: 83%
- Spain: 80%
- Worldwide: 79%
- Canada: 76%
- Russia: 75%
- Japan: 72%
- Australia: 70%
- UK: 70%
- US: 70%
- Germany: 65%

Sources: Ipsos; Kearney analysis
C. Hygiene and immunity are becoming consumption priorities

Selected countries
Rapid growth in all markets, especially in the affected countries

3 Global consumer trend post COVID-19

Value sales change % vs. average (February 2019)

- Italy
  - +112% Pharma hygiene
  - +29% Hand soap
  - +24% Thermometers

- Singapore
  - +162% Multivitamin
  - +582% Liquid antiseptic
  - +145% Wet wipes

- Vietnam
  - +78% Mouthwash
  - +45% Personal wash
  - +35% Toilet paper

Sources: Nielsen; Kearney analysis
D. A more differentiated consumer world: different segments react differently to COVID-19

Food and beverage example

3 Global consumer trend post COVID-19

Sarah
Lancashire
Gen Z, 19 years old
Single
Student

- From price-competitive supermarket to online
- Essential to improved diet, natural products
- Reduced alcohol consumption

James
London Zone 4
Millennial, 35 years old
Married, 1 baby
Lawyer

- From convenience-focused to online
- Health consideration to immunity focus
- From regular visits to food markets to increased cooking at home, reduced OOH

Peter
Central London
Gen Z, 25 years old
Single
Tech start-up

- From online shopping with large retailer to local supplier (fresh and vegetables)
- From premium products to fewer fads, focus on trusted brands
- Daily lunch next to office to reduce OOH consumption

Jo
Brighton
Gen X, 43 years old
Married, 2 young teens
Runs design agency

- From premium grocery with brand focus to private label
- From focus on convenience foods to greater attention to ingredients
- Buy wine online instead of at Lidl

Tom
Sunderland
Gen X, 40 years old
Married, 3 young children
Car factory line manager

- From local Tesco to discounter
- From mainstream brands to private label
- From premium beer and pet food to reduction of non-essentials (for example, beer, snacks)

Linda
Surrey
Baby Boomer, 65
years old
Married, 2 grown children
Retired

- From premium grocery store to online
- Price conscious with high mix of private label to support local retailer despite higher price
- New dog, new pet category spend

1 Out-of-home
Source: Kearney analysis
E. Traditional activities are moving to online

- Video conference at home
  - Berkeley 2020 virtual graduation ceremony on Minecraft

- Concert at home
  - WHO “One world: together at home” online charity concert

- Shopping at home
  - Live streaming shopping

Sources: Public information; Kearney analysis
E. Paradigm shift will boost unpenetrated “in-home” consumptions

Home cleaning
Greater attention to immunity and hygiene, increasing needs for **safe products**:
- Clothing cleaning
- Home and kitchen cleaning
- ...

Home casuals
Increasing work-from-home concept, stimulates the demand for **comfortable dress**:
- Casual shoes
- Pajamas
- ...

Home entertainment
**Need for electronic equipment and accessories** related to home work and home entertainment is increasing:
- Mobile phone and accessories
- Video games and accessories
- ...

3 Global consumer trend post COVID-19
Source: Kearney analysis
F. Consumers are more value focused and concerned about individual finances

3 Global consumer trend post COVID-19

Consumers concern: financial, health, both, or less concerned (%; March 19–21, 2020)

- Primarily financial
- Financial and health
- Primarily health
- Less concerned
- Don't know or not stated

Note: Survey conducted from March 19–21, 2020; n=10,000
Sources: Ipsos; Kearney analysis
F. But that does not mean value brands will win automatically.

Ford insisted on one-size-fits-all “T” model

- Low cost but no differentiation
  - Mass production
  - One color (black)

GM provided more options to respond to consumer needs

- Multiple brands
  - Different colors
  - Different models

Ford and GM example

GM gained popularity by launching a series of new models, Ford lost the leading position to GM in the 1930s.

Sources: Desktop research; Kearney analysis

3 Global consumer trend post COVID-19
F. We expect to see more “mass luxury” and “decent value” brands

Muji example

- Unique positioning as “No Brand Quality Goods” is reinforced by its quality design
- Best becomes enough for value consumers who want tasteful yet affordable products

3 Global consumer trend post COVID-19

Source: Kearney analysis
F. Trading down to private label

YoY US category shifts (March 2020)

<table>
<thead>
<tr>
<th>Category</th>
<th>YoY Shift</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel</td>
<td>-75–80%</td>
</tr>
<tr>
<td>Shopping</td>
<td>-55–60%</td>
</tr>
<tr>
<td>Transportation</td>
<td>-35–40%</td>
</tr>
<tr>
<td>Restaurants</td>
<td>-25–30%</td>
</tr>
<tr>
<td>Health and beauty</td>
<td>-20–25%</td>
</tr>
<tr>
<td>Groceries</td>
<td>+10–15%</td>
</tr>
</tbody>
</table>

- People are buying more groceries during the crisis, and will turn to private-label products due to the relatively high share of private-label products
- The future growth will include other product categories as consumers gain trust of private-label brands

Sales of private brands jumped by double digits in 2020 Q1 as US consumers stocked up on groceries and daily essentials during the initial phase of the coronavirus pandemic. In Q1 private-label dollar sales climbed by 4.1% and unit sales by 2.3% across all US retail outlets.

Sources: Private Label Manufacturers Association (PLMA), Nielsen; Kearney analysis
How companies respond to consumer shifts will shape the future winners

To seize the opportunities:

– E-commerce proliferation (with seniors as a key new target group)

– Purpose-driven brands (for consumers seeking trust)

– More connection and engagement with consumers (for individual-centric consumers)

– More “at-home” targeted business and products

Source: Kearney analysis
2. Reshaping future supply chain trend and strategy
Global supply chain outlook

1. Global supply chain movement

2. Implication on global supply chain strategies

3. Path to next normal: takeaway for SMEs
A. China has been the horsepower of most of the change in the global supply chain

New global supply chain center: China, the United States, and Germany

1 Global supply chain movement

Sources: Ministry of Commerce of the People’s Republic of China, UN comtrade; Kearney analysis
A. In 2020, the topic of reshoring is back in the spotlight after the US–China trade war

Manufacturing imports from China registered a sharp decline from $816 billion to $757 billion in 2019

US domestic gross output of manufactured goods reached $6271 billion in 2019, virtually unchanged vs. 2018

Of the $31 billion in US imports that shifted from China to other Asian LCC countries, almost half was absorbed by Vietnam

Manufacturing imports from Mexico rose $13 billion

From January to February, China’s net export, export, and import decreased by 9.6%, 15.9%, and 2.4% (in RMB)

COVID-19 is likely to cost the economy $1 trillion during 2020

1 Global supply chain movement

Sources: Reshoring Index, United Nations; Kearney analysis
A. However, China will remain dominant as a global sourcing center

Global export by commodity as of 2018¹ (%)

1 Global supply chain movement

¹ The export data has included the major HS codes under each category, not exhaustive
Sources: UN Comtrade; Kearney analysis
A. The requirements of matured supply chains and labor costs make a massive reshoring highly improbable

Ease of reshoring

Ease of reshoring means the geographic industry transfer, which depends upon the geographic complexity of the supply chain along with the dependency on labor cost and skill.

Extended, far-reaching, multi-tier supply chains

How geographically complex is your supply chain?

Regionally driven supply chains

How heavily does the industry depend on labor cost and skill?

Examples of impacted industries

1. Healthcare: pharmacy consumables
2. Healthcare: medical devices
3. Consumer products: personal care
4. Consumer products: food and beverage
5. High-tech: consumer electronics
6. Auto: components
7. Consumer durables
8. Consumer products: luxury

Source: Kearney analysis
A. For example, global life science is heavily reliant on China

API\(^1\) manufacturing facilities in China doubled from 2010–2019

\(\sim 80\%\) of the world’s APIs are produced abroad, the majority in China and India

70\% of the US protective mask supply is made in China

80\% of the US antibiotic supply is made in China

Last year, China accounted for

- 95\% of US imports of ibuprofen
- 91\% of US imports of hydrocortisone
- 70\% of US imports of acetaminophen
- 40–45\% of US imports of penicillin
- 40\% of US imports of heparin

\(^1\) Active pharmaceutical ingredients
Source: Kearney analysis
### Top 15 reasons for US companies to reshore, 2017–2018 (%)

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>International logistics costs</td>
<td>69.7</td>
</tr>
<tr>
<td>Proximity to customers and markets</td>
<td>55.3</td>
</tr>
<tr>
<td>Total cost of ownership evaluation</td>
<td>51.3</td>
</tr>
<tr>
<td>Risk mitigation</td>
<td>50.0</td>
</tr>
<tr>
<td>Quality issues</td>
<td>48.7</td>
</tr>
<tr>
<td>Latency in supply chain</td>
<td>44.7</td>
</tr>
<tr>
<td>Time to market</td>
<td>43.4</td>
</tr>
<tr>
<td>IP issues</td>
<td>34.2</td>
</tr>
<tr>
<td>Currency exchange</td>
<td>30.3</td>
</tr>
<tr>
<td>Localization of product</td>
<td>30.3</td>
</tr>
<tr>
<td>Rising labor cost</td>
<td>30.3</td>
</tr>
<tr>
<td>Opportunity to innovate</td>
<td>22.4</td>
</tr>
<tr>
<td>Political instability</td>
<td>19.7</td>
</tr>
<tr>
<td>Communication problems with foreign customers</td>
<td>18.4</td>
</tr>
<tr>
<td>Green/sustainability considerations</td>
<td>17.1</td>
</tr>
<tr>
<td>US/state/local government incentives</td>
<td>15.8</td>
</tr>
</tbody>
</table>

A. Cost competitiveness is the key consideration for reshoring, while government incentives have less impact.

1 Global supply chain movement

Source: Reshoring institute 2019 survey. Organized by Kearney
B. In the era of uncertainty, we have identified five trends around resiliency of supply chain

1. Diversification of global supplier network
2. Rapid responsiveness toward uncertainty
3. Increasing importance on planning and forecasting
4. Global resource allocation and integration in logistics
5. Supply chain finance

Source: Kearney analysis
B1. Companies are shifting to their alternative suppliers to mitigate risk

Supply disruption in automobile industry

– Only about 11% of automotive manufacturers have alternative suppliers in the event of an emergency

– Expected losses in the automobile industry are expected to reach $2.5 billion

Alternative solutions for disruptions

– Mazda considers shifting from tier 1 supplier in China to tier 2 supplier in Mexico to secure supply

– Mazda’s standardized design and production model allow it to source from qualified suppliers across different regions

Automotive example

Sources: Desktop research; Kearney analysis
B2. Retailers that made preemptive investments enabled rapid response to preserve market share

1 Global supply chain movement

Walmart Cross-border collaboration

Yonghui Upstream collaboration

Hema Fresh Outsource

Source: Kearney analysis
B3. The value of planning and forecasting has become increasingly evident in the supply chain shock

Demand forecast based on product lifecycle

Fail to adapt market conditions and consumer behaviors

Ineffective communication with suppliers

Conservative inventory management

Nintendo example

Nintendo

Source: Desktop research; Kearney analysis
B4. The pandemic accelerates the global resource allocation and integration in logistics

The slowdown in logistics systems will have a domino effect throughout the supply chain.

Year-on-year freight load factor (FLF) change in January and February 2020 by region:
- 2.2% decrease in the FLF for North American airlines
- Estimated $252 billion revenue loss

1 Global supply chain movement

Sources: Statista; Kearney analysis
B5. Companies increasingly focus on cash management to protect their financial health

Kearney aggressive working capital management framework

- Declining demand for non-critical products
- Cancelled orders
- Liquidity issue in upper-stream suppliers

Cash inflow
Accounts receivables, credit and collection management

Cash management
Transaction and billing

Cash outflow
Expense and payables management

Led by supply chain

Led by S&O

- Negotiation of delayed rental payment
- Reduction in labor costs
- Work from home

1 Global supply chain movement

Source: Kearney analysis
C. The penetration growth of online will be accelerated post epidemic

Trade show example

1 Global supply chain movement

1 VR is virtual reality. Source: Kearney analysis
To SMEs, four key challenges associated with global trends are identified:

1. Greater pressure on global sourcing
2. Restrained cross-border activities
3. Low visibility and transparency in supply chain
4. Stronger need for outside financing

2 Implication on global supply chain strategies

Source: Kearney analysis
In addition, the crisis induced SMEs to conduct self-evaluation, explore, and adapt new trends

Post COVID-19: Face a new normal

**Identify the vulnerability**
- Data management with intelligent automation and analytics
- Flexibility with sourcing
- Supply risk management

**Explore new business**
- Target categories with growing demand
- Modularize production and shift or adapt lines due to demand changes

**Adapt new business model**
- Explore the possibilities of remote working across industries, domains, and businesses
- E-commerce

2 Implication on global supply chain strategies

Source: Kearney analysis
The COVID-19 pivot: build resilient supply chain capabilities

1 Build up supply chain traceability

2 Diversify supplier base

3 Secure logistics capacity

4 Manage cash flow

3 Path to next normal: takeaway for SMEs

Source: Kearney analysis
The COVID-19 pivot: collaborate with trustful partners

Leverage partners’ expertise to close the resource and digital capability gap

- **End-to-end service**: placing orders, customs clearance, foreign exchange, tax refund services
- **Omnichannel with global sourcing capability**
- **Integrated and trackable logistics system**
- **Reliable financial support**

3 Path to next normal: takeaway for SMEs

Source: Kearney analysis
Kearney is a leading global management consulting firm.

Kearney global footprint

Key facts
- Founded in 1926 and registered in UK
- Over 3,500 consultants worldwide
- Offices in major business centers of 40 countries
- About 2,000 projects per year
- 80% of projects serve repeat clients
- >50% of projects in strategy areas

Source: Kearney