

the **silk** initiative



The TSI Navigator™ Compass

Will the Coronavirus Change Chinese Consumer Behaviour Towards Health and Wellness?

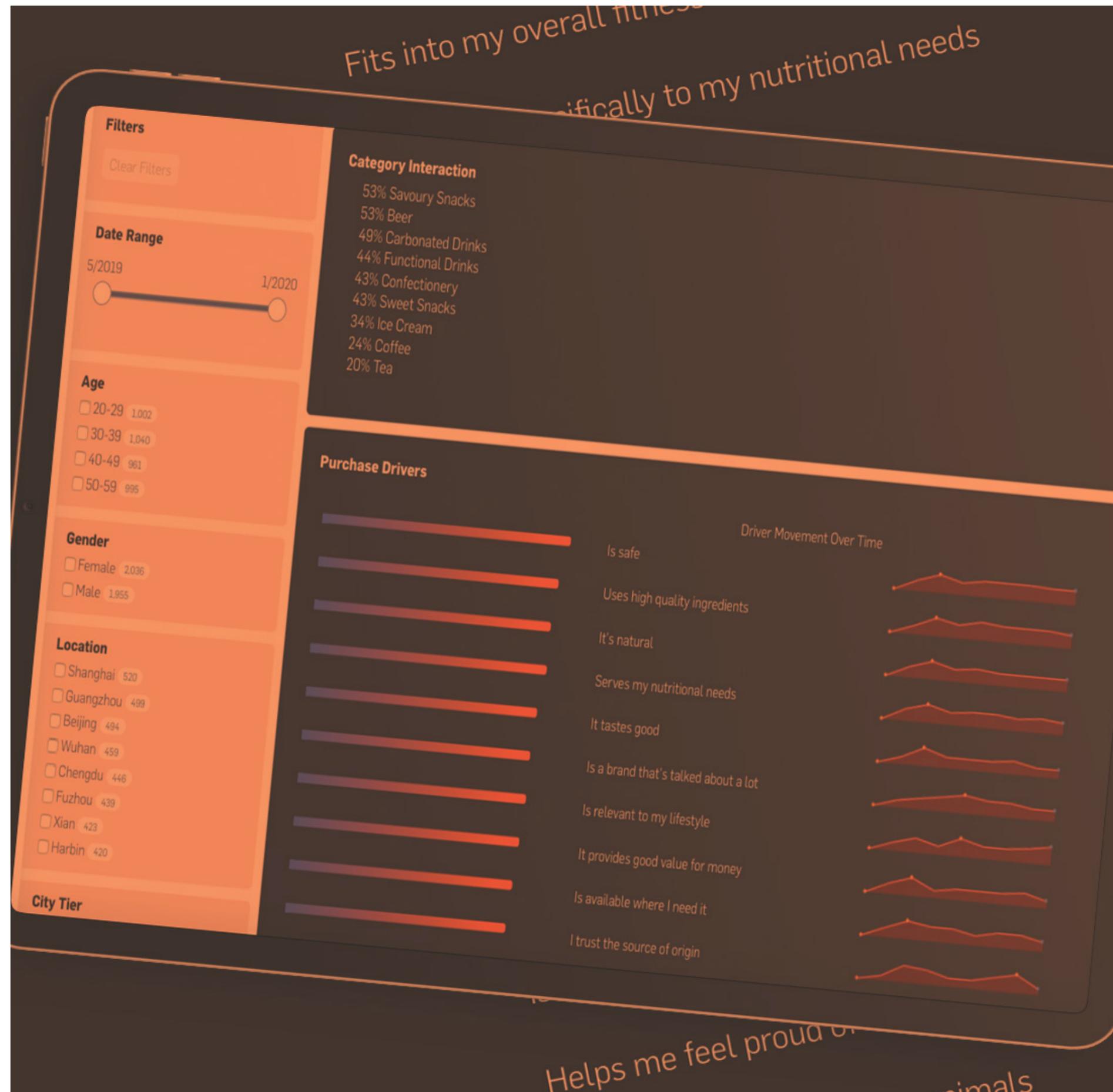
ABOUT THE TSI NAVIGATOR™ COMPASS

TSI strongly believes in the importance of quantitative data when trying to analyse and determine consumer trends. Qualitative insights are good, but only go so far. Numbers, however, speak volumes. That's why we created TSI Navigator™, the industry's first and only dynamic data intelligence platform that collects, analyses, and visualises the China food and beverage landscape. Navigator™ looks at 10 F&B categories across 8 of the most important cities in China, cities where companies are looking to for growth.

The monthly TSI Navigator™ Compass series is based on proprietary TSI Navigator™ trend analysis, quantitative analysis, literature reviews, and qualitative interviews with industry leaders. It also draws on TSI's industry expertise in semiotics, culture, consumer products, food and beverage, wellness, and pharmaceuticals.

This periodic report shares emerging analysis and perspectives on topical trends in the food, beverage, and wellness industries. This research is part of The Silk Initiative's continued examination of consumer trends throughout the region. With this report, The Silk Initiative (TSI) aims to educate foreign and domestic brands on the latest topics prevalent to business success in the food and beverage, consumer packaged goods, fast moving consumer goods, and wellness sectors.

This edition was written by William Brenner, Andrew Cameron, John Pabon, and Scarlett Wen, with contributions from members of the TSI China team. The authors wish to thank TSI and external interviewees, as well as other TSI colleagues who provided feedback. Any errors that remain are those of the authors. Please direct comments or questions to John Pabon at john@thesilkinitiative.com.



DISCLAIMER

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FOREWORD

It's hard to believe just three short months ago the world was celebrating the start of a new decade. Many looked forward to a new beginning following the tumultuous geopolitical events of the past few years. My own personal resolutions centred around the expansion of The Silk Initiative across Asia-Pacific, while also taking time for more work-life balance. As the fireworks burst over Melbourne's CBD, I readied myself for a great year ahead.

That all changed a few weeks later.

The 2019 novel coronavirus, officially known as COVID-19, struck China out of nowhere and with a vengeance. At a time when families gathered to celebrate the most important holiday of the year, tens of millions were placed under strict quarantines. Business stopped. Life stopped. While the world watched some of the draconian measures taken by the central Government, few gave it a second glance as this was just a "China problem."

Now, that China problem has become a global problem. As of this writing, 166 countries are dealing with the disease. That's 86% of the world! There are now more dead outside China than inside. Panic buying is gripping European, American, and Australian markets while borders continue shutting to foreign visitors. The shock to the business world is no less severe. Stock markets are tanking, share prices plummeting, and companies left wondering how to cope.

But, we will rebound from all this. While things seem dark now, savvy companies are preparing for a brighter day ahead. At TSI, we've worked non-stop throughout the crisis to provide guidance and support for our clients. To date, however, we've not given a prognosis on where the Chinese market is heading. It's been too premature to know much, but now we have data giving a glimpse of the future.

I'm pleased to present the inaugural TSI Navigator™ Compass, even though it comes at a time of great change for the global business community. Our monthly Compass series will continue to explore the most relevant and current topics impacting business success. We hope its content proves beneficial to your work in China and the region.

Stay strong and 加油!

Andrew Kuiler
Founder & CEO

ANDREW CAMERON



As an Associate Director with The Silk Initiative (TSI), Andrew ensures clients meet their research and brand strategy objectives. From ensuring accurate data collection to producing strategic stories from the data that's collected, he works with clients to identify the most effective strategies to propel their brands forward. His previous experience includes work with Milward Brown.

WILLIAM BRENNER



A true global citizen, William brings a unique combination of strategy and design to the table, working alongside TSI's global client portfolio to realise their brand visions. This is supported by a focus on design-led thinking, meaning the insights he provides are always backed by what consumers actually want. Prior to TSI, he founded design agency DesignWB.

SCARLETT WEN



The business world tends to divide people into two camps. On one side are the strategic, linear thinkers while on the other you have the creatives. But, organisations need both to truly succeed. Scarlett prides herself on being the perfect combination of both, able to easily navigate between the two. This has enabled her to become a master in information synthesis, consumer understanding, and trend analysis.

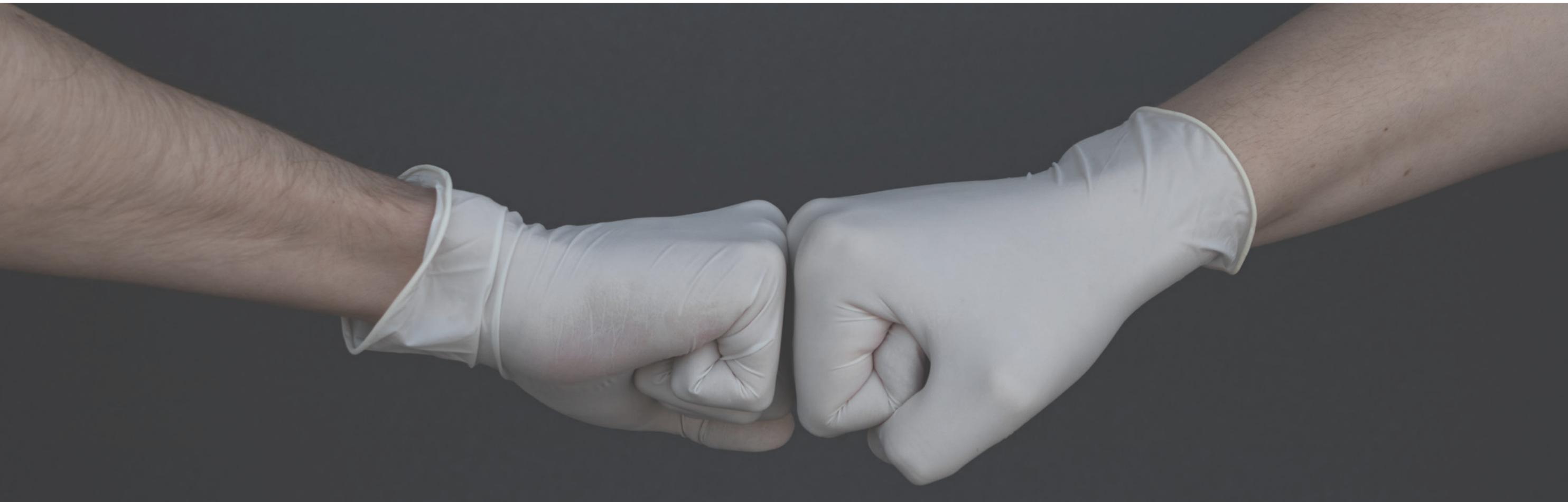
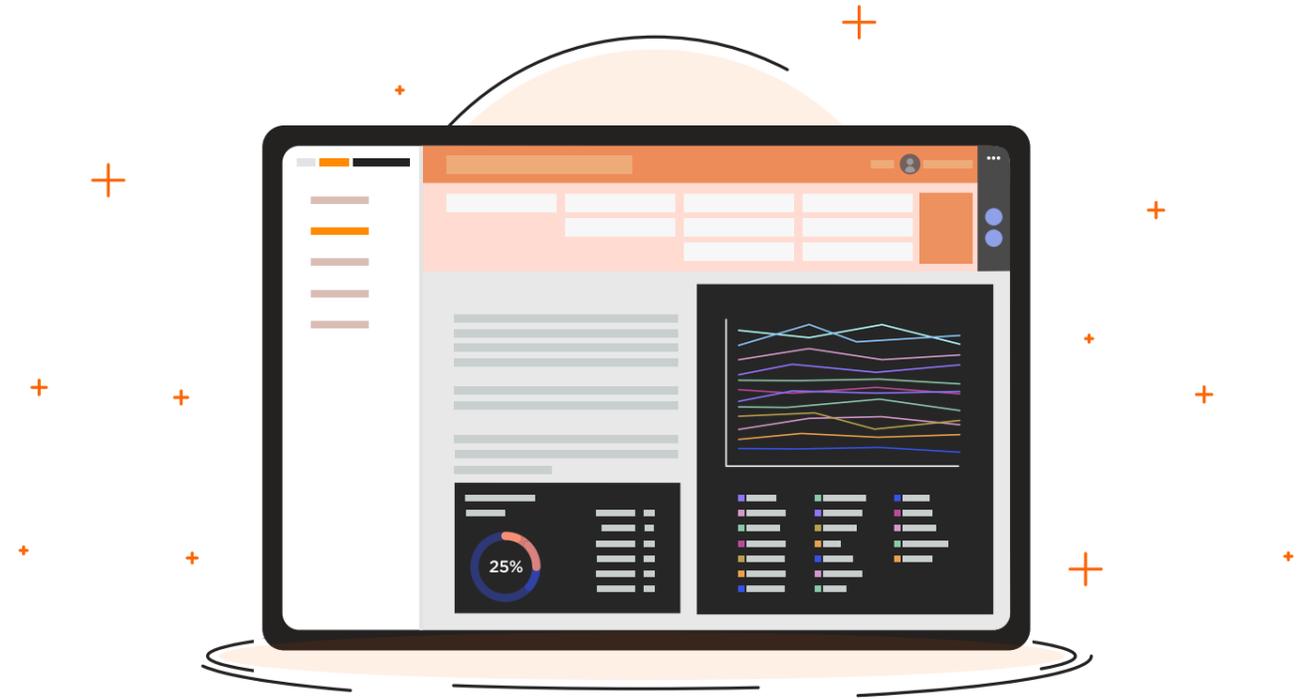
JOHN PABON



Over the past decade, John has examined the societal impacts of China's economic rise and has been honoured as one of the world's top 100 voices on modern China. He also leads TSI's marketing and communications. His previous work includes posts with the United Nations, McKinsey, A.C. Nielsen, and as a consultant with BSR, the world's largest sustainability-focused business network.

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What began as a few hushed cases of pneumonia in a relatively small Chinese industrial city would soon make Wuhan a global household name. In less than six months, this localised health issue became a worldwide pandemic. When it comes to the spread of infection, this virus could not have asked for a more perfect storm. A long asymptomatic incubation period, coupled with the world's largest human migration, meant the 2019 novel coronavirus was hitching rides on planes, trains, and cars around the entirety of the Earth without anyone being the wiser.

Then, the symptoms began. Although the majority of cases in this early period were in the Chinese province of Hubei, where Wuhan is located, other parts of China and Asia-Pacific began to record infections too. To curb the spread of the disease, nations enacted some of the strictest border protections in modern history. Airlines cut routes, millions were quarantined, and eventually many began to lose their battle with the virus.

As those areas hardest hit by the virus began to recover, a second wave started to wash over the rest of the world. This wave would have a much bigger, and longer-lasting, impact than the first. Not only has it taken a toll on the health of generations, but financial markets, feelings of nationalism and xenophobia, and our day-to-day routines are all held in limbo thanks to COVID-19.

For those of us who were in China during the SARS outbreak, we immediately began to think of the impact COVID-19 would have on various

industries. There would be both negative and positive implications, even though minute-by-minute reporting painted a grim picture of the future. Of particular interest to us at TSI was the potential consumer refocus on food safety, health, and wellness given the prevalence of the virus. If we look back at 2004, the period immediately following SARS, health and nutrition segments began their steady rise across greater China. Healthier consumption was the name of the game. Nielsen noted in their analysis at the time that:

“...the sales growth of yogurt was up 40% on the previous year, mainly driven by demand for more nutritious yogurts. And liquid milk increased by 20%, as consumers sought out high protein dairy products. [We] also measured a 22% increase in juice sales in 2004 as consumers looked for healthier consumption habits.”

Our question was whether or not the coronavirus would have the same effect.

To test this, and try to find an answer, we employed our proprietary data intelligence platform, TSI Navigator™. Navigator™ looks at 10 major F&B categories from consumers all across China to understand drivers and trends in real-time. A foresight feature allows users to crystal ball what consumers will care about in the future, while emotional heatmaps profile a variety of the touchpoints driving consumer purchase behaviour.

Part of the TSI Navigator™ platform includes a screening of some of the hundreds of food and beverage products launched in China every month. To help understand what works and what doesn't with product launches, TSI selects 10 products each month that have been recently launched across the Chinese F&B sector. We put these in front of actual consumers to understand how willing they would be to make a purchase. Then, we capture the why behind this purchase intent at both a functional and emotional level. We then use this data to stay on top of how consumers feel about new products in-market, and what factors may help drive appeal and long-term success for brands.

For the purposes of this analysis, we tested 10 products with high health and wellness attributes. These included drinks made with medicinal properties or special Chinese herbs, yoghurts with high probiotic benefits, gummy vitamins, and healthy snack bars. Our cohort was a respondent pool of 1,200 people between the ages of 20 and 59, across tier 1 and tier 2 cities in mainland China. The sample included an even split in income levels and family types to provide a balanced analysis. We also capitalised on our in-depth understanding of Chinese consumer behaviour, qualitative interviews with experts, as well as work in the health and wellness space.

The goal of this analysis was to see whether consumers would be more willing to purchase products positioned as healthier given the prevalence of the coronavirus across China. Would they gravitate to the latest items to help keep them safe and healthy in the midst of a pandemic? Or, would they turn to tried-and-true trusted products in a time of uncertainty?





To understand the impact of COVID-19 on the health and wellness sectors, we need to first examine where the market was heading before the rise of coronavirus. Were Chinese consumers even interested in the latest healthy foods or trendy wellness retreats? If so, does the TSI Navigator™ data show a steady continuance of an already-established trend? If not, can we see the coronavirus impacting the wellness purchases consumers intend to make in the future?

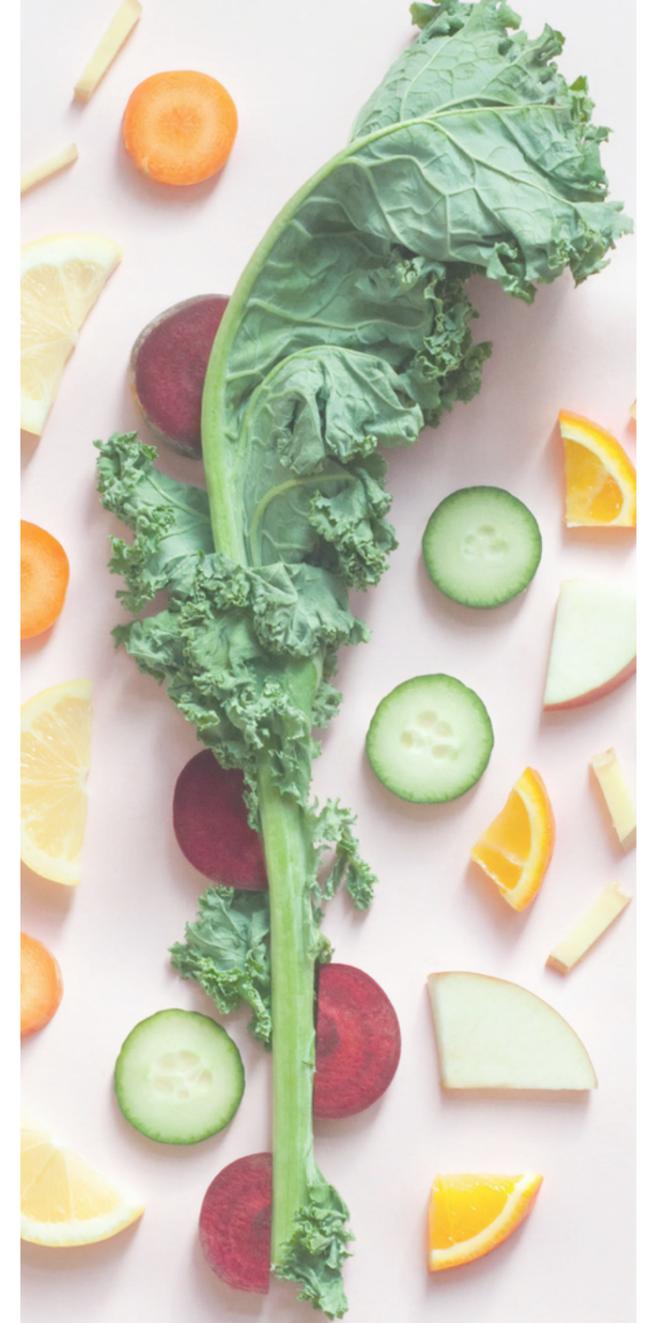
For anyone who's spent a bit of time walking the streets of cities like Shanghai and Guangzhou, the answer is obvious. You can't go a block without running into the newest boutique gym, organic market, or health food store. A decade ago, these would have been an oddity. Today, they're as common as Starbucks. That's because health and wellness has taken China by storm.

As China continues to grapple with expanding waistlines and poor nutritional understanding, the other end of the spectrum is growing by leaps and bounds. In fact, 76% of urban Chinese say they participate in sports or other physical activities. Compare this to about 56% in the United States. The number of Chinese

attending gyms alone has increased by 4 to 5 million people annually since 2011. The fitness craze also received a big push from the central Government through its Healthy China 2030 Plan. Additionally, fitness industry leaders want to have half a billion Chinese up and active by 2025. Combined, this means healthy lifestyles were less likely to be just a passing fad, and more a sign of a modernizing China. We were also seeing a strong desire for improving overall well-being. That means it was not just the physical infrastructure, but also all the other bells and whistles associated with a healthy lifestyle, that began to benefit from this fitness frenzy. Where that was most apparent was in what consumers put in and on their bodies.

According to the China Health Care Association, annual health food sales in China were at around RMB200 billion (US\$31 billion) before the virus. This includes organic foods, where China has grown to become one of the top four organic markets worldwide. Dietary and nutritional supplements were also on the rise. Nearly half of all urban consumers purchase some form of nutritional supplement, contributing to the RMB100 billion (US\$15 billion) market. In the drink sector, Forbes reports nearly 90% of Chinese consumers now drink some form of plant-based beverage – juices, soybeans, or grains. In Shanghai, for example, the HeyJuice brand of fresh juice stores have grown exponentially in popularity.

Digging even deeper, it's interesting to look at what consumers had been paying the most attention to up through last year. First were labels. Rather than reading lengthy, confusing



nutritional tables, Chinese consumers would gravitate towards symbols and concise claims. Next, Chinese consumers cared most about the additives, preservatives, provenance, and sugar content of products. Providing clear information on these health claims went a long way in building consumer trust. Lastly, men tended to view nutrition differently than women. Men cared more about additives and preservatives, as well as genetically-modified content. Women, on the other hand, focused on fat content, sugars, and sodium.

Would these drivers continue to impact purchase intent today?



THE IMPACT OF THE CORONAVIRUS ON CHINESE CONSUMERS

“Taken as an entire group, respondents were no more or less likely to purchase health and wellness products than before the onset of the coronavirus.”

To begin to determine whether or not the coronavirus was impacting consumer purchase behaviour, we turned to TSI's proprietary Navigator™ software. Our sample cohort of 1,200 respondents came from 8 major markets in China: Beijing; Chengdu; Fuzhou; Guangzhou; Harbin; Shanghai; Wuhan; and, Xi'an. These respondents shed light on the functional and emotional drivers behind purchase intent for health and wellness products. These products included functional drinks and yoghurts with high nutritional content, multivitamins, and healthy snack bars. Our analysis compared responses to these propositions against propositions within similar categories over the past year. A higher purchase intent score for the sample products would indicate greater resonance with consumers and their needs.

Taken as an entire group, respondents were no more or less likely to purchase health and wellness products than before the onset of the coronavirus. Where we anticipated a spike in purchase intent for items perceived to protect

against disease, the data did not show this to be the case. There are a few potential reasons for this. First, consumers might already feel they have the health and wellness products they need at this stage and are staying loyal to those brands. Second, consumers may not understand the links between products like vitamins and herbal teas with health and wellness. In this case, there would be substantial education needed. Third, the product descriptions might not do a good enough job at articulating a need or benefit. Lastly, in times of crisis people might just not care about branded products. They may be cooking from scratch with fresh fruits, vegetables, and meats over canned goods found on shelves.

But, of course, not all consumers are the same. Interestingly, we did find two particular segments where purchase intent for health and wellness products increased. These were people aged 50-59 and families with children under two.





Older demographics, overwhelmingly, suffer the most from the coronavirus. They have the highest mortality rates and endure the greatest physical impact. Those over the age of 70 have an alarmingly high mortality rate of nearly 12%, well over the average mortality rate of 3.4% estimated by the World Health Organization. Even among those who are just entering their golden years, infection rates and mortality is still high. In short, those over 50 years old need to take the greatest precautions when it comes to the coronavirus.

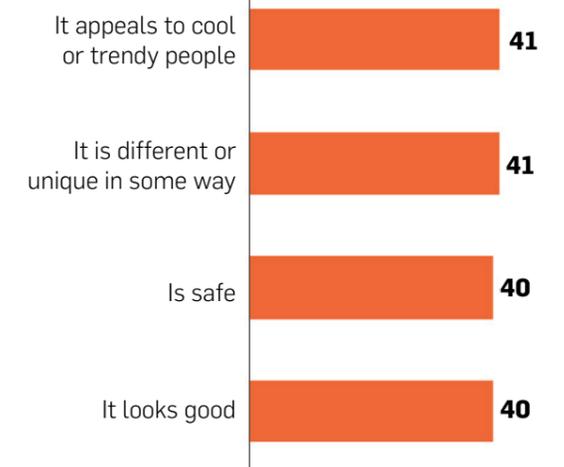
It's not surprising, then, that the group most at risk from the coronavirus would be the same one with a higher purchase intent for healthy products. Chinese consumers aged between 50 and 59 years old, overall, tend to have a greater propensity to purchase products with a clear health benefit. They tend to understand, more so than most other segments, the importance of wellness and nutrition. These factors combine to make them a target demographic for brands looking to push health and wellness propositions.

While this segment did have a higher purchase intent for the health and wellness products in our screener versus the average respondent profile, certain items performed much better than others. The reason they did so all came down to two unique factors.

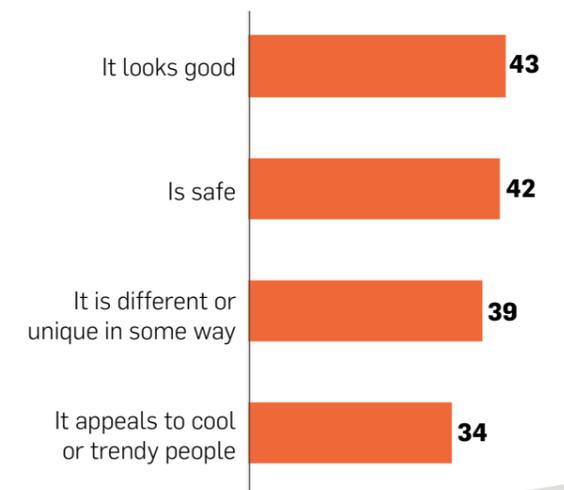
- The first was the product description. Respondents aged 50-59 wanted a proposition with clear safety and quality assurances. As we'll see with other segments, vague or overused claims did nothing to increase purchase intent. Product descriptions which laid out clear health benefits also did better than products with ambiguous or non-existent claims.

- The second factor driving purchase intent among this demographic is reputation. Product screens with the highest consumer resonance were those from brands already well-known and trusted in the market. With this trust comes the perception of inherent health benefits within the product. It also adds to the trendiness factor necessary to gain impressions and conversion.

An example of a particularly resonant product for this segment was Hansi's Blueberry and Medlar Flavoured Drink. The purchase intent for this product was higher for those aged 50-59 than for all other segments. Examining the product description – "...a low-sugar and low-calorie formula, this soft drink provides a combined taste of blueberry and goji berry" – we can begin to see why. The formulation of the product is very clear. The description lays out the nutritional attributes of low sugar and calories, while also talking through the product's specific flavour combination. Remember goji berry is a highly preferred ingredient in traditional Chinese medicine, which tends to be practised by older consumers. In terms of reputation, this segment sees Hansi as being a unique brand. Given their target marketing on younger demographics, those aged 50-59 also attribute Hansi as being cool or trendy.



The functional attributes for Hansi's Blueberry and Medlar Flavoured Drink are noticeably different for those aged 50-59 (image above) versus the general population of respondents (image below).



BUSINESS IMPLICATIONS AND KEYS TO WIN

- This demographic wants to clearly see the health benefits your product offers to them. If this is missing, they'll just move on.
- Older consumers want guarantees that your product is safe and of the highest quality.
- Reputation matters. If you already have a good reputation among this demographic, capitalise on it with new product launches or marketing for existing products.

THE HEALTHY HUANGS



Families with children under two years old were another segment with favourable impressions towards TSI Navigator™ health and wellness product screenings. Overall, we saw this segment's purchase intent scores increase relative to other products within a given category. That means, for example, the segment is more likely to buy the healthy yoghurt versus other yoghurt propositions. While on the surface it seems obvious they are looking to care for their young children, there are a number of other factors at play. When it comes to driving up purchase intent scores for this segment, brands need to understand how they are positioning their unique product attributes.

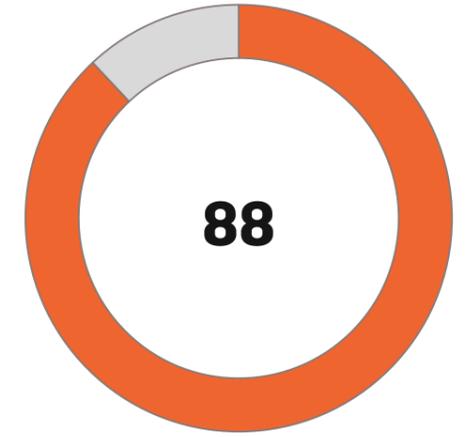
Firstly, the description of a product must clearly point to serving specific nutritional needs. It's not enough to say your product is healthy. You have to explain why it's healthy and what benefits it provides. This is even true with products that are inherently healthy, like vitamins.

Secondly, this segment has specific needs separate to just nutrition. That could include ease of use, particular use occasions, or hero ingredients. When dealing with fussy children, taste is of paramount concern. Understanding your consumer needs is critical to product adoption.

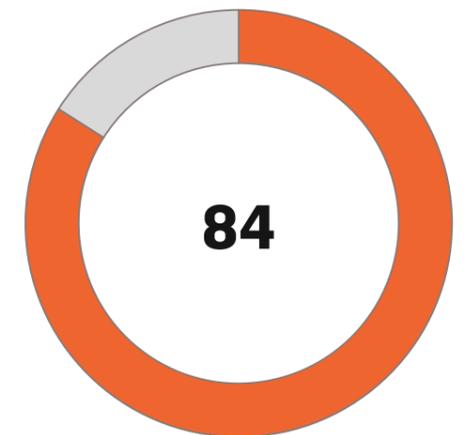
Lastly, product descriptions have to be especially tailored within crowded categories. How are you differentiating your product among its competition? When a consumer looks at a shelf full of ready-to-drink beverages, what makes your SKU stand out? If all your competitors are using the same functional and emotional attributes, it's critical you

take a different approach. Sometimes choosing a claim and backing it up with science, like some milk brands have done in the past, is one key to win.

An example of a product screen particularly salient with this segment is Mengniu's Guangyiru BB+Pro Yoghurt. In a category like yoghurt, which is especially crowded in China with various health claims, why do families with children give this a higher purchase intent score? Looking at the product description, we see "...this yogurt contains probio-M8 and BB-12 probiotics and provides 100 billion beneficial [cultures] to help enhance resistance." The beneficial need, enhance resistance, is clear. When viewing the product itself, we see aesthetically pleasing packaging with eye-catching blue hues representing its blueberry flavour. The segment has a high functional need around taste, which the pack delivers on. Scientific language, whether understood by consumers or not, also helps to differentiate the yoghurt from its competition.



For families with children under two years old (image above), both purchase intent and functional attributes differed from the general population of respondents (image below).



BUSINESS IMPLICATIONS AND KEYS TO WIN

- For families with children under two, purchase drivers revolve around the nutritional development of the child.
- Product descriptions are the most important component in purchase intent. These need to address specific nutritional and segment needs, as well as differentiate a product from the competition.
- While young parents between the ages of 20 and 39 are more open to trying new products, they are constantly marketed to. You need to have a solid strategy to cut through the noise.

We've yet to see the full scale, impact, and implications of the coronavirus on all aspects of our society. Three months into this historic pandemic, there are still far more unknowns than knowns. What is clear, however, is that survival is possible with the right measures in place. China is testament to this. Although the original epicentre of the coronavirus, life is already getting back to normal in the Middle Kingdom. While some might consider their measures draconian, the sacrifices made by tens of millions of Chinese have meant the ability to restart society in record-setting time.

For business, things will likely take a bit longer to stabilise. Most companies are calling Q1 2020 a complete loss. Stimulus injections may help some of the smaller enterprises survive, while larger corporations are going to have to take a hard look at their operations. Through all of this, there is one certainty. As with SARS, business-as-usual has been thrown out the window.

Consumers are going to change as a result of the coronavirus. The way companies interact with their consumers is also going to have to change. In the case of Chinese consumers, they are likely to see an increase in purchase intent for things that provide the basics: safety; security, and health. While this will vary depending on the segment of consumer, expect the desire for healthy, clean, nutritious food, beverage, and wellness products to continue its rise across the country.



As we write this, countries in the west are in the deepest throes of the virus. The majority of you reading this have much on your plate at the moment, with the future of Chinese consumers probably somewhere at the bottom of your concerns. While our hearts and thoughts are with you, the current crisis will not last forever. Now is the time to take stock and prepare for the future. China, as a global market, is not going anywhere. Don't table those plans you had in January about expanding your business into Shanghai or Beijing. If your operations rely on China as a primary market, don't go looking elsewhere to set up shop. Keep things moving forward, even if it doesn't seem like there's light at the end of the proverbial tunnel.

To end with a bit of encouragement, especially for those of you working at home, in self-isolation, or from a socially appropriate distance from others, think of all the amazing things famous people accomplished during times of crisis. While Sir Isaac Newton self-isolated during the Great Plague of London in 1665, he devised his theories on gravity, motion, and calculus. Shakespeare wrote King Lear, Macbeth, Antony and Cleopatra, Timon of Athens, and Pericles all within a period of quarantine. While nobody is expecting you to invent time travel or discover alien life, there's more to be done than binge-watch television.

Simply continuing to work your existing business plans is likely enough to weather this storm. But, when things return to normal – albeit a new normal – will you and your business be ready to tackle the shifts in global markets? Or, will the impact of the coronavirus take you by surprise once again?

ABOUT TSI

At The Silk Initiative, we use insight, strategy, and innovation to future-proof global food and beverage brands. Our business is to create and validate data-driven brand strategy solutions for our clients' future ambitions.

As an insights-driven brand consultancy with decades of expertise within the packaged food and beverage industry, we pride ourselves on helping our clients achieve exceptional growth. Our solutions, products, and services get them there.

We do this through three distinct practice areas to help companies discover, innovate, and scale their market opportunities.

Discover. Whether it's about short-term brand diagnostic work or a more comprehensive brand positioning understanding, we take a 360-degree look at the category, your consumers, competitors, and best-in-class approaches to guide brands like yours. This provides a complete assessment of the present opportunities and future risks facing your brand, helping you feel informed and competent as a brand owner.

Innovate. Our proprietary innovation development and visual design approaches bring brand, product, pack and communication platform ideas to life. This gives your business culturally inspired, relevant solutions that will get noticed in the market today, and in the future.

Scale. Our rigorous brand validation techniques help our clients understand the measurable future return on investment of their brand strategies. This ensures you have the confidence, excitement, and motivation as a business to maximise your market potential.

Our proprietary tool, **Navigator™**, is the industry's first dynamic data intelligence platform that collects, analyses, and visualises the China food and beverage landscape. Navigator™ looks at 10 major F&B categories from consumers across 8 key cities in China to understand drivers and trends in real time. The tool is designed to help companies make smarter decisions in food and beverage in China, particularly when it comes to innovation.

TSI is one of the world's few food and beverage specialists sitting at the intersection of insight, strategy, innovation, and creative development. We work with partners across research and development, marketing, and consumer insights. From our base in Shanghai, we help clients around the world make smarter brand and product decisions by combining our tools and services, excellent advisory, future-focused thinking and tangible, actionable assets.



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