Covid-19 has disrupted normal business operations, and each industry faces its own challenges. As the control measures enter a new stage, many business leaders are asking: what can companies do to survive?

According to the Ministry of Commerce, restaurant and retail sales exceeded 1 trillion CNY during the 2019 Spring Festival holiday. PwC China estimates that this number could fall by 50-70% in 2020. The restaurant sector has been hit especially hard. 94% of restaurant companies surveyed by the China Cuisine Association reported a 70% or more decline in revenue during the 2020 holiday period compared to 2019, with 93% closing some or all of their shops. Covid-19 control measures restricted logistics, as well as the movement and employment of staff. The entire food industry is facing enormous challenges.

With the help of exceptional efforts from companies and support from the government, most agricultural product wholesale markets and supermarkets resumed normal operations after the holiday. Farmers, truck drivers, supermarket staff and food delivery drivers are all playing essential roles to support measures to control the Coronavirus. Many have heroically volunteered to provide food and shipping services for the most severely affected areas to ensure that people can eat three meals per day.

With most people avoiding restaurants and other public spaces, consumers are now preparing most of their meals at home. Supermarkets, hypermarkets and fresh grocery shops have been supplying even more food than usual. Online ordering and delivery was already popular for restaurant food and beverages, but now consumers are staying home and using ordering and delivery apps to buy an unprecedented amount of groceries. During the first two weeks of February, e-commerce platforms showed significant year-on-year increases in average daily sales of fruits, vegetables, prepared food, snacks, nuts and alcoholic drinks.

This article will look at the key challenges faced by the food industry, suggest some measures that companies can take towards overcoming those challenges, and share some examples of actions already taken.

1. PwC China: 疫情对中国宏观经济影响及政策建议, 12 Feb 2020
There are three main areas where epidemic control measures have directly affected business operations:

- **Transportation restrictions**: To control the spread of the Coronavirus, cities and provinces restricted transportation and the movement of people. Some smaller counties and villages closed roads going in and out. This has interrupted some shipping and delivery of food products from farms to warehouses and from warehouses to stores, as well as interprovincial and parcel shipments. Shipping and logistics conditions, however, will eventually return to normal.

- **Travel restrictions and labour disruption**: Many staff travelled to visit family during the Spring Festival, but because of the epidemic control measures have not returned to their work location, while staff that do manage to return from other provinces are often required to self-quarantine. The workforce and movement of people, however, will eventually return to normal.

- **Changes in consumer behaviour**: As people stay home to limit the spread of the Coronavirus, they are avoiding public areas and cooking their own meals. Many traditional markets have been closed for the time being. Many restaurants have almost no customers, and foot traffic in shopping malls and business districts has fallen severely. At the same time, supermarkets and grocery delivery apps have seen a sharp increase in demand. Some changes in consumer purchasing behaviour will persist even after the Covid-19 control measures end.

These problems are creating severe challenges for individual businesses in the food industry:

- **Upstream raw material difficulties**: Measures to control transportation and the movement of people made it difficult for some food manufacturers and livestock farmers to acquire raw materials. Many packaging and raw material suppliers have not yet fully restored operations. Some food industry companies that depend on imported materials face delays in customs clearance.

- **Excess or insufficient inventories of perishable goods**: Where demand has fallen, e.g. restaurant and in business and shopping districts, restaurants and their suppliers are often stuck with excess inventory. Supermarkets, especially those in residential areas, often find themselves sold out of certain categories early in the day. Inventory management for distributors, upstream food product manufacturing and livestock farms is facing challenges from both demand disruption and road transportation restrictions.

- **Cash flow difficulties**: Many stores and restaurants are still paying salaries and rent, even while revenue has fallen off a cliff. These businesses face their own cash flow difficulties, and their staff, suppliers and landlords will also be affected.

- **Human resources challenges**: In order to restore normal operations, companies need to ensure that staff fulfil quarantine requirements and that workplaces have sufficient virus control equipment. Some sectors face a shortage of staff, e.g. supermarkets, food delivery and express parcel delivery. At the same time, restaurants and commercial districts with low foot traffic have staff but have no customers, and are facing a sharp drop in revenue.
In the short term, businesses must be agile. Large food industry companies must fulfil their corporate social responsibility and act quickly to ensure a stable supply of food, and make sure that their staff, as well as those in their supply chain, can maintain their physical health, survive financially, and together weather the storm.

**Measures to overcome Covid-19 business challenges**

1. **Inter-departmental cooperation**
   - **Epidemic response team**: Form a rapid action planning and coordination team, including representatives from every business unit and functional unit. The team must work directly with the company’s decision makers.

2. **Health and safety**
   - **Prevent viral transmission**: The first priority must be to ensure the health and safety of staff and their families. Ensure that body temperatures are scanned for all on-site staff and customers and require them to wear masks. Increase the frequency of sanitation and disinfection. Arrange for staff to work from home whenever possible.
   - **Food safety**: Because of changes in production, inventory management and delivery routines, as well as the pressure of Covid-19 risks, staff can easily lose focus on the food safety details in their everyday work. Ensure that staff at every stage of the supply chain remember to pay close attention to food safety practices.

3. **Supply chain**
   - **Communication**: Food manufacturers and wholesalers need their sales team to maintain close contact with customers to assess their situation. Procurement and operational units should stay in contact and assess suppliers’ conditions.
   - **Logistics**: Work with provincial and local governments to ensure that trucks carrying food shipments have all the required permits and that driving routes are confirmed ahead of time with government authorities. Work with shipping and delivery companies to adjust to new consumer behaviours and demand patterns.
   - **Channel management**: Draft new plans to decrease shipments and quantities to those channels that have faced a decrease in demand, and increase shipments and quantities to those channels with increased demand. If possible, work to shift existing inventory from low-demand channels to high-demand channels.
   - **Ensure survival of the supply chain**: When necessary and possible, make accommodations to help suppliers or customers to survive these difficult times. This could include extended payment terms or flexible delivery schedules.
   - Companies need their whole supply chain to survive in order to thrive when conditions return to normal.

4. **Actively interact with consumers**
   - **Ensure transparency and earn the trust of consumers**: While traceability has always been key requirement for the food industry, transparency throughout the supply chain is even more important during Covid-19. Right now, the public is especially attentive to sanitation and hygiene during the final preparation, packaging and delivery stages. Companies need to actively tell consumers what they are doing to ensure food safety and quality.
   - **Use mobile online media**: Measures to restrict the movement and gathering of people have been implemented in order to avoid the spread of the virus. This has created an unprecedented online environment with user numbers and screen time reaching levels rarely seen before. Food companies need to be online, actively using social media to increase consumer interaction and conversion.

5. **Government policy support**
   - **Make use of government policies to help companies**: Governments at every level have issued supportive policies and measures in areas such as financing, employment stabilisation and tax reductions to help companies that have been negatively impacted by Covid-19. Companies should research, understand and make use of all available policies and support.

6. **Medium-term and strategic measures**
   - **Assessment of new conditions**: Recognise new consumer behaviours. After the crisis period ends, many habits, such as restaurant dining, will return to normal. But some new preferences, e.g. increased O2O grocery buying, will continue after more and more housebound consumers become familiar with e-commerce retail channels for food and household products.
   - **Cash flow planning**: Normal working capital cycles have been disrupted, and the timing of the economic recovery is uncertain. In order to better understand and control risk, companies should make a 3-6 month cash flow plan, strengthen cash flow management, control costs, actively explore every potential source of financing and optimise their balance sheet structure.
   - **E-commerce**: Consumers are staying home and shopping online. Food brands and retailers need to build up their online profile and e-commerce fulfilment capacity in order to reach those consumers and promptly meet their new requirements.
   - **Look ahead**: Begin adjusting sales targets, production schedules, shipping plans and product launches for the next couple of months in order to help your whole supply chain maintain an integrated and agile approach to planning and execution.
There have already been many good examples of active adjustment and cooperation.

- National and local governments have worked to ensure uninterrupted agricultural production and shipping routes, and have taken measures to keep wholesale markets in operation. The government has taken action to ensure price stability for vegetables and staple products, and has released pork and grain from national reserves into the market. Central and local governments have issued various policies to help companies overcome cash flow challenges associated with the Covid-19 crisis.

- Companies at every stage of the supply chain are working to ensure that their staff have sufficient protective masks and protective equipment, and that body temperature is scanned for delivery staff, employees and onsite customers. Many restaurants and grocery stores scan the body temperature of all customers and staff who enter, and require them to wear a mask.

- Restaurants, supermarkets and delivery companies have promulgated contactless delivery and take-away procedures. Many restaurants have closed their dining rooms and are focused on their delivery app sales. Many now attach a “reassurance form” to packages of delivered or take-out food. The form displays the name and temperature of the people who prepared, packaged and delivered the food. Residential compounds no longer allow delivery staff to deliver directly to apartments, instead, deliveries must be left at the front gate.

- Major supermarket and hypermarket chains that have seen increased demand for groceries, as well as e-commerce platforms that are experiencing increased home delivery orders, have actively taken steps to hire staff from restaurant chains whose businesses have seen a sharp drop in revenue.

- E-commerce companies are working to ensure that farmers have access to online channels to sell their agricultural products. Assistance includes logistics, platform registration and reduced e-commerce platform fees.

- Many leading food industry companies and banks are helping their distribution and retail companies survive this period by extending payment terms; some commercial property managers are temporarily reducing rent for stores that have seen a drop in customer traffic.

- A snacks company that is headquartered in one of the areas hardest hit by the virus took early action by shifting its inventories to warehouses that fulfil orders from e-commerce platforms such as Tmall and JD.com. This early adjustment enabled them to ensure normal fulfilment as e-commerce sales jumped.

All of China is facing this crisis together and providing extra support for those people who are the most impacted by Covid-19 and epidemic prevention measures. All industries are taking measures to protect their staff and their customers, and the food industry is playing an important role by ensuring people can eat well while staying home to prevent the spreading of the virus.

Changing consumer behaviour, a disrupted labour force and transportation restrictions are creating inventory and cash flow problems for businesses throughout the food and restaurant industries. Companies should closely communicate and coordinate with their upstream and downstream supply chain partners to find solutions that will meet consumer needs, and to ensure that all the businesses in their supply chain can survive this period of strict epidemic control and prevention.

When business and living conditions return to normal, consumers and business partners will remember which companies helped them to get through this difficult time.

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