The World Health Organization declared on 11 March 2020 the COVID-19 outbreak a pandemic, as the disease has rapidly spread across the world with more than 118,000 cases in 114 countries. In mainland China, as of 11 March, the outbreak has claimed over 3,169 lives and infected 80,796 people since it erupted in January. Sales of department stores and shopping malls fell off a cliff as they were forced to shut down in late January and first two weeks of February. Industry experts estimated the loss of offline business for the department store and shopping mall sector to be around 60%-70% yoy.

To sustain their business, department stores and shopping malls have to accelerate the ongoing diversification of sales channels, including going online. They have used multiple online channels and a mix of marketing tactics to support their merchants. This article discusses the key online initiatives/strategies: Mini Programs, WeChat private groups, livestreaming and short videos, O2O delivery services and others, and evaluate the effectiveness of these strategies. It also envisages the prospects of the sector in the post COVID-19 phase and provides implications for actions.
Key takeaways

During the COVID-19 outbreak, many department store and shopping mall operators have been working relentlessly to enrich the functions of their Mini Programs, set up more WeChat private groups, produce livestreaming shows more frequently to reach out to customers and pilot contactless delivery services, among other efforts.

Many of these online initiatives have delivered encouraging results. However, some are not very well-developed and some even show confusing information. It will take time to build comprehensive functions, interesting and relevant content as well as synergies with users. Partnership with tech giants and leveraging SaaS providers can certainly save effort and lead to better results. Adequate training should also be provided to staff and merchants so that they can master those tools and online sales models.

To survive and prosper during this difficult time and gear up for the post COVID-19 era, the department store and shopping mall sector should pay attention to the following issues/trends:

1. Tech-savvy players with well-developed omni-channel strategies, including e-commerce platforms, loyalty programs, partnership with on-demand delivery services providers and proficiency in using a variety of communications and marketing tactics are more likely to thrive.

2. The habit of online shopping will be solidified; but physical retail is here to stay. Physical retailers should explore intersections between online and offline to meet the needs of consumers.

3. Community malls came on the scene to provide goods and services to satisfy everyday needs of residents amid the epidemic outbreak. They will continue to make rapid strides.

4. There are imminent needs to improve property and corporate management. More funds should be invested for hygienic facilities upgrade in response to higher awareness on public health. Enterprises should also set up crisis management teams and develop business continuity plans.
I. Development updates

i. Previously closed department stores and shopping malls are gradually resuming operation

Since 25 January, many department store and shopping mall chains across China had been shut down to contain the fast-spreading COVID-19. Although a small number of malls remained open, they were deserted as residents chose to stay indoors. Authorities extended the Spring Festival break – initially set to run from 24 to 30 January – by three days, until 3 February, in an attempt to help contain the virus. However, many provinces, municipalities and autonomous regions, including Beijing and Shanghai, told businesses not to reopen before 10 February at the earliest.

China Commerce Association for General Merchandise (CCAGM) interviewed 50 department store enterprises through questionnaires and phones in early February. It found that on average only 30% of department stores had operated during Lunar New Year holiday. Stores in tier 1 cities and Chengdu had a higher operation rate of 60%. Those in emerging new tier 1 cities such as Tianjin had around 20% operation rate, compared with less than 10% in tier 2 or below cities.

According to a survey conducted by the China Chain Store & Franchise Association (CCFA) in early to mid-February involving 1,100 shopping malls, around 40% said that they had operated in the three weeks from 25 January to 16 February (Exhibit 1).

Exhibit 1: Operation rate of shopping malls from 25 January to mid-February

<table>
<thead>
<tr>
<th>Period</th>
<th>Operation rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>25 January – 9 February</td>
<td>40%</td>
</tr>
<tr>
<td>10 February – 16 February</td>
<td>41.9%</td>
</tr>
</tbody>
</table>

Source: CCFA

The CCFA survey also showed that malls in tier 1 cities had a much higher operation rate of 70%, compared with 35% in tier 2 or below cities in the first two weeks of February.

Even if some malls opened for business, many tenant stores were closed and unstaffed, leaving only the supermarkets and pharmacies running. Operation hours were shortened; compulsory temperature check and identity registration were set up at the entrance.

Towards the last week of February, increasing numbers of department stores and shopping malls have resumed normal operation, albeit at a slow pace. However, most stores in Wuhan, the epicenter of the outbreak, still remained closed.
ii. Drop in traffic

As department stores and shopping malls were forced to shut down temporarily, enterprises had witnessed significant drop in foot traffic and sales in January and February 2020. The aforesaid survey conducted by the CCAGM showed that sales of department stores slumped by 85% yoy at Lunar New Year holiday; average sales for January were merely a quarter of the same month last year.

The CCFA survey found that major mall operators including Wanda and SPC Group estimated a 50% to 70% yoy drop in number of visitors during Lunar New Year holiday. According to Win Data, the research arm of Winshang media, average daily traffic of shopping malls in tier 1 to 4 cities plunged by 17.27% yoy in January 2020. The decline in traffic is more drastic in tier 1 and 2 cities than in tier 3 and 4 cities. This is attributable to the fact that competition between malls in developed cities is more intense and shoppers are more disperse. In addition, people living in big metropolitans usually have higher awareness on public health and will avoid going to crowded areas during an epidemic. They are also more familiar with e-commerce platforms and can easily switch to online shopping.

Win Data found that metropolitan malls and outlets were the most hard-hit in terms of foot traffic during the COVID-19 outbreak (Exhibit 2).

<table>
<thead>
<tr>
<th>Type of malls</th>
<th>Level of business impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metropolitan malls and outlets</td>
<td>Severe</td>
</tr>
<tr>
<td>Regional malls</td>
<td>Moderate</td>
</tr>
<tr>
<td>Community malls</td>
<td>Relatively mild</td>
</tr>
</tbody>
</table>

*Source: Win Data*

iii. Rental and other financial pressure

Over half of the surveyed CCFA members said that they had offered at least 15 days rent free for their tenants. However, given the prolonged business disruption, some shops may delay rent payment or close their business outright, defaulting outstanding debts. As vacancy rate goes up, malls have to adjust their rental charges, review brand and business composition strategy as well as provide incentives to boost leasing. There will be a large reshuffle of brands in department stores and shopping malls in which 50% of the existing brands will be replaced.

Income from rent is likely to deteriorate and will put pressure on companies’ liquidity. Some department malls and shopping malls are also tenants themselves and thereby subject to extra blows from property owners. Operators will need to shelf their plans for expansion and put their long-term development or transformation plans on hold.
II. Department stores and shopping malls turn to online sales as COVID-19 spreads

i. Strategy overview

The disruption caused by the COVID-19 outbreak has been so devastating that it may threaten the very survival of some offline retailers. To sustain their business, department stores and shopping malls have to accelerate the ongoing diversification of sales channels, including going online. They have strengthened their cooperation with third party e-commerce platforms such as Tmall and JD.com and social commerce platforms such as VIPshop and Xiaohongshu. Meanwhile, they have also raced to develop or improve their own online channels. Exhibits 3 and 4 show the key online initiatives of selected department stores and shopping malls.

Exhibit 3: Major online initiatives of selected department stores (as of 28 February 2020)

<table>
<thead>
<tr>
<th>Department stores</th>
<th>E-Commerce platform</th>
<th>Online channels</th>
<th>Marketing tactics and other O2O initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hefei Department Store</td>
<td>-</td>
<td>✓</td>
<td>Livestreaming</td>
</tr>
<tr>
<td>Intime</td>
<td>✓ &quot;Miao Street&quot;</td>
<td>✓</td>
<td>Livestreaming</td>
</tr>
<tr>
<td>Your Mart</td>
<td>Same as Mini Program</td>
<td>✓</td>
<td>Group-buying, livestreaming</td>
</tr>
<tr>
<td>Rainbow</td>
<td>✓ &quot;tianhong.cn&quot;</td>
<td>✓</td>
<td>O2O delivery, livestreaming</td>
</tr>
<tr>
<td>Bailian</td>
<td>✓ &quot;bl.com&quot;</td>
<td>✓</td>
<td>O2O delivery, flash sale</td>
</tr>
<tr>
<td>Nanjing Xinbai</td>
<td>-</td>
<td>✓</td>
<td>O2O delivery, livestreaming</td>
</tr>
<tr>
<td>Wangfujing</td>
<td>✓ &quot;Wangfujing mall&quot;</td>
<td>✓</td>
<td>Livestreaming</td>
</tr>
</tbody>
</table>
New World
(Note: some stores set up mini websites provided by third parties; those sites can be accessed from WeChat official account) - ✓ ✓ -

Parkson ✓ "Parkson mall" - access from WeChat official account ✓ ✓ ✓ -

Nanjing Central Mall - - ✓ ✓ ✓ -

Eurasia Group ✓ "Ouya Weidian" - access from WeChat official account - - ✓ Livestreaming

Liqun Group ✓ "Liqun Web Mall" - access from WeChat official account ✓ - ✓ O2O delivery

Source: ebrun⁸, CCAGM⁹, Fung Business Intelligence

Exhibit 4: Major online initiatives of selected shopping malls (as of 28 February 2020)

<table>
<thead>
<tr>
<th>Shopping malls</th>
<th>Online channels</th>
<th>Marketing Tactics and other O2O initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>E-Commerce platform</td>
<td>App</td>
</tr>
<tr>
<td>Suning Plaza</td>
<td>-</td>
<td>✓</td>
</tr>
<tr>
<td>Joy City</td>
<td>Access from its Mini Program</td>
<td>✓</td>
</tr>
<tr>
<td>CapitaLand</td>
<td>-</td>
<td>✓</td>
</tr>
<tr>
<td>Aegean Commercial Group</td>
<td>✓ &quot;Ai Shan Gou&quot; - access from WeChat official account</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: ebrun¹⁰, Fung Business Intelligence

While large brands and merchants are well prepared to seize new opportunities provided by department stores and malls, small and medium merchants may not have the resources and technological knowhow to set up and manage their online stores. Therefore, some department stores and malls offered to waive platform fees and provide technological infrastructure and training to help merchants to go online.
ii. Key online initiatives

a. Mini Programs

Offering comprehensive functions and “use-and-go” convenience, Mini Program plays an important role in promoting online shopping. In a Mini Program, users can not only view the latest products and sales information, but can also watch livestreaming shows by KOLs (key opinion leaders), KOCs (key opinion consumers) and guided shoppers (usually sales associates of brands), place an order, connect with a merchant and join some themed WeChat private groups. Users can synchronize their member profile and e-wallet with the Mini Program and enjoy seamless shopping experience.

WeChat Mini Programs by Wanda Plaza, Parkson, Bailian, Wangfujing, Your Mart, Rainbow, Joy City and Suning Plaza (left to right).

Putting a search into WeChat finds at least 20 Mini Programs developed by the Wangfujing Group. Each is linked to the e-shopping mall or the service center of its department store branch. According to the company’s online sales report, Wangfujing’s WeChat malls made approximately 30 million yuan of sales and drew 5.3 million of visits in February\(^{11}\). Cosmetics was the most popular product category on the online platforms.
Similarly, different branches of a shopping mall chain also launched independent Mini Programs on social media apps to serve customers in their respective commercial circles or regions. For example, Joy City launched Xidan Joy City and Chaoyang Joy City Mini Programs for its two malls in Beijing. The former has already recruited 40 tenants to station online and generated 1.5 million yuan of sales in less than two months. It planned to recruit 60 more merchants to sell at its Mini Program.

Meanwhile, businesses are working relentlessly to enrich the functions of their Mini Programs. One of the initiatives includes incorporating virtual reality (VR) technology into their Mini Programs in order to enhance shopping experience.

**b. WeChat private groups**

WeChat private group has gained a lot of traction amid the outbreak of the COVID-19. Companies across business verticals, including travel providers, gyms, tutorials, and parenting groups, are all leveraging private group chats to interact with members and potential customers. The shift from using sprawling social networks to smaller and more niche groups is becoming more apparent. Businesses believe that group chats can facilitate deeper customer relationships and forge a sense of trust and community into their brand experience. Meanwhile, customers can receive real-time and one-stop service from the group host and advice from other members.
In the past few months, many sales associates or so-called counter ladies (柜姐) and brand sales representatives in department stores and shopping malls have turned into online shopping guides to reach out directly to customers. They have set up private groups on WeChat and invite customers to join the chat groups. During store closure, some department store and shopping malls posted QR codes in their official WeChat accounts and Mini Programs for followers to scan and join. For example, Tianjin Joy City formed dozens of brand-based WeChat groups and published their QR codes in its Mini Program such that customers can reach out to the representatives directly:

Aegean Commercial Group reportedly manages more than 500 WeChat private groups and engages with approximately 200,000 consumers. The group hosts provide exclusive offers and new product launch information to their members regularly. They also respond to enquiries almost instantly and direct members to make purchase decisions.

WeChat groups of Aegean Kuiming Mall categorized by brand.
Wangfujing Group has already set up 1,500 WeChat private groups to serve its 300,000 consumers. Those groups are differentiated from each other by retail format (department stores or outlets), shopping floor and product category.

WeChat caps the maximum members for a group at 500. Once a group reaches its size limit, the QR code for joining that group is being disabled and users can only join if invited by an existing member. This social filter ensures that anyone who joins is connected to at least one other group member. In addition to developing shared and common interests, the underlying personal network also aims to cultivate a sense of bonding and secrecy and thus encourage active participation in conversations.
c. Livestreaming & short videos

As face-to-face encounter is not feasible during store closure, department stores and malls increasingly find online livestreaming a better alternative to reach out to potential customers and make product introductions. Very often, online shopping guides or representatives from merchants use the digital platforms provided by department stores and malls, mainly Mini Programs, to produce livestreaming shows and short videos.

In February, Intime Department Store and Taobao jointly launched livestreaming programs hosted by guided shoppers. In less than a week, they livestreamed for over 10,000 minutes (approx. 166.7 hours) and attracted more than 100,000 views. A sales associate of Lancôme at Intime even expressed that one of her three-hour livestreaming sessions served as many customers as she normally does in six months in the concession outlet in department store. The best shopping guides of Intime sold over 100,000 yuan worth of goods in one livestreaming show. All 65 malls operated by Intime will run own livestreaming shows in future. The company aims to produce up to 100 shows per day in 2020.
Livestreaming channel in Your Mart Mini Program. Brands livestream for over three hours everyday.
Rsun Property reportedly helped merchants at their Changzhou and Nanjing shopping malls to set up livestreaming shows on Douyin, a short video app, within three days. The malls were responsible for product selection, anchor casting, order tracking, technical operation and customer services. The first show attracted 52,000 views and made 80,000 yuan of sales; the second drew 220,000 views and sold 750,000 yuan worth of goods. Amid the COVID-19 outbreak, Douyin offered to boost traffics for business accounts that can produce qualify and fun videos.

Online livestreaming allows real time interaction between the host and audience as well as among the audience, fostering better viewing experience and stickiness. Business can also make limited in-program offers to create a sense of urgency and prompt audience to act. Towards the end of the show, the host can invite interested audience to join private chats and continue the discussion. The performance of a livestreaming show is usually quite transparent, and the host can review the number of views, comments and likes instantly and make improvement.

d. O2O delivery services

Customers opt for home delivery during the health crisis. Some department stores and shopping malls have partnered with on-demand delivery platforms including JD Daojia, Meituan, FlashEx (Shan Song) to serve customers living within the 3km radius. Too boost consumer confidence, these companies are piloting driverless vehicles, drones, storage lockers and designated pick up points to provide contactless delivery services.

Rainbow Department Store offers to deliver products directly from brand counters to customers’ home.
e. Other tactics

Along with rolling out various online initiatives, some department stores and shopping malls have employed a variety of sales and marketing tactics to strengthen their membership system during the COVID-19 outbreak. Examples include group buying, reward points redemption, lucky draws, flash sale and distribution of red pockets, gift packs, discount coupons, etc.

Eurasia Group launched “Women’s Month” promotion for March 2020 and gave out cash coupons for its WeChat official account followers.

Group-buying products offered in Your Mart’s Mini Program
Aegean Commercial Group enables members to redeem featured products with their reward points + cash (see below). Point redemption scheme is a good way to enhance members’ loyalty and encourage repeated purchase.

Intime Department Store’s Miao Street app is fully synchronized with Taobao’s membership system. Its livestreaming shows are broadcasted on Taobao.

Department stores and shopping malls are recommended to employ a mix of online sales and marketing tactics and evaluate their results regularly.
iii. How effective are these online initiatives?

The above-mentioned online initiatives are nothing new. Major department stores and shopping malls have adopted these tools and tactics long before the outbreak of COVID-19. The epidemic has merely sped up the process and made department store and mall operators more determined to implement online strategies.

*Some of the above online initiatives delivered encouraging results immediately.* Department stores such as Wangfujing and Intime as well as shopping malls such as Joy City and Rsun saw a spike in online traffic and transactions. They are also cultivating a pool of online shopping guides to host livestreaming shows and manage customer relations via group chats. These shopping guides will become important assets of the companies.

However, as it takes time to build a comprehensive digital platform and fill the shelves, *some of the Mini Programs launched by department stores and shopping malls are not very well-developed and some even show confusing information.*

The original prices and discounted prices on this page were in fact the same.

Some malls have not recruited sufficient number of merchants and their online shelves were empty.
According to Tencent, total transaction value generated on WeChat Mini Programs exceeded 800 billion yuan in 2019, an increase of 160% from the previous year. However, one of the key drawbacks of WeChat Mini Programs is that they cannot send out push notifications. They cannot be shared on users’ WeChat moments either. Therefore, many users did not keep coming back to the Mini Programs. The 7-day retention rate of WeChat Mini Programs was less than 30% in 2019. Enterprises may need to update their Mini Programs regularly with new merchandise, exclusive products or special offerings from loyalty programs to boost the retention rate and usage frequency.

**Partnership with tech giants can certainly save effort and lead to better results.** Acquired by Alibaba in 2017, Intime Department Store has been tapping the technology infrastructure of the Alibaba ecosystem. Its guided shoppers host livestreaming shows on Taobao, sharing its massive traffic (average daily visit was estimated to be 15.4 million in January 2020), e-commerce tools and post-sale services. Over 2,000 guided shoppers from Intime have registered as anchors on Taobao and produced more than 1,000 shows. The support from Alibaba has greatly helped Intime scale up livestreaming and short video productions for its 30+ department stores and shopping malls within a short period of time and the results have been encouraging.

Unlike KOLs or KOCs, most online shopping guides or merchant sales did not have the experience in hosting livestreaming shows but they are now required to set up a studio and talk in front of a camera for hours. They can only learn through trial and error and refine their skills gradually. In addition, newly established livestreaming channels may need to consider hiring celebrities/KOLs to generate buzz or they would have to build audience base and subscription from scratch. Not all livestreaming programs gain many views at the start, as the competition for viewership is getting more intense. A sales associate working in a prestigious shopping mall in Shenyang said that she had only sold ten pieces of clothes through livestreaming for the whole week. Livestreaming shows that had a good debut may see their viewership drop as the novelty experience gradually wears off.

For group chats, there is a higher chance to turn conversation into commerce if members deem the messages exclusive, relevant and timely. Group hosts should avoid bombarding members with too many sales pitches or they would feel annoyed. They should steer the discussion whenever a question is posted or a comment is made, and encourage members to share their tips, experience and knowledge. Ideally, the chat will evolve in an organic way to become an interest group in which the hosts can simultaneously promote the brands, products or services. Online shopping guides can give out red pockets, tips and other goodies from time to time to keep the groups alive. However, what members value most from the hosts would likely be deep product knowledge, one-stop solutions and professional recommendations.
III. Implications and post COVID-19 prospects

Even if the COVID-19 is showing signs of abating in China, people may still have lingering fears towards going to populated indoor areas such as shopping malls. Fung Business Intelligence envisions that it may take up to a few months for market to rebuild consumer confidence and for traffic to bounce back to pre-epidemic level. Traffic and sales are likely to improve remarkably in 4Q20.

To survive and prosper during this difficult time and gear up for the post COVID-19 era, the department store and shopping mall sector should pay attention to the following issues/trends:

1. Tech-savvy players are more likely to thrive; deploying omni-channel, tech-driven strategies is a must. Department stores and shopping malls with well-developed omni-channel strategies, including e-commerce platforms, loyalty programs, partnership with on-demand delivery services providers and proficiency in using a variety of communications and marketing tactics such as livestreaming and private chats, can adapt swiftly to the online landscape and seize business opportunities. Their efforts started to pay off as online sales of cosmetics and womenswear increased remarkably (as in the cases of Wangfujing, Rsun and Intime)

2. The habit of online shopping will be solidified; but physical retail is here to stay. The months-long epidemic has brought new online shoppers, many from the middle-aged and elderly groups or lower tier cities. Once they become familiar with the online shopping journey, they will be keen to use online shopping tools more frequently. Therefore, department store and shopping mall operators should continue to build their omni-channel capabilities even when the epidemic is over. Having said that, in-store and human interaction will remain an important aspect of the shopping experience. The thrill to touch, feel and experience products or to try out samples in a physical space is a unique offering by brick-and-mortar retailers. Consumers are always eager for novel shopping experience, social gatherings, entertainment activities and refreshing services. While pure e-commerce giants will continue to disrupt the market, traditional retailers including department stores and shopping malls alike should explore intersections between online and offline to meet the needs of consumers.

3. Community malls will make rapid strides. From 2019, community malls have started to transform and upgrade services that are more life related, particularly those aimed at promoting welfare and convenience in local communities. Amid the COVID-19 outbreak, some government-sponsored one-stop community centers and neighborhood commercial districts came on the scene to provide goods and services to satisfy local residents’ everyday needs. Their business performed quite well despite market adversity. FBIC expects that more department stores and shopping malls will branch out into community mall operations.
4. *There are imminent needs to improve property and corporate management.* Following the COVID-19 epidemic, department stores and shopping malls will have to reserve more funds for hygienic facilities upgrade, procurement of sanitizing supplies, cleansing services and staff training in response to higher awareness on public health. When launching new malls, developers should ensure that good ventilation systems and infection control facilities are in place. Finally, enterprises should set up crisis management teams and develop responsive mechanism or business continuity plans before they are hit by next emergencies. The COVID-19 outbreak caught many retailers and businesses unguarded but it may also be an opportunity for them to transform and upgrade.
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