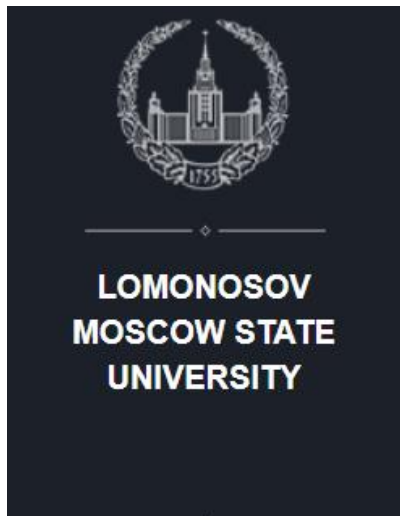


Growth and Development in the BRICS Economies
November 13, 2021

CONSUMER RESPONSE TO THE COVID-19 PANDEMIC IN RUSSIA AND CHINA



Marina Y. Sheresheva, Prof. Dr.
Head of the Research Center for Network Economy
LMSU Faculty of Economics

Tiantian Li, PhD Student
LMSU Faculty of Economics

LMSU Research Center for Network Economy

- ▶ Inter-firm networking
- ▶ Social network analysis (SNA) applied to business and management issues
- ▶ Sustainable regional economic development based on networking
- ▶ Relationship marketing - emerging markets and cross cultural studies



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- Welfare and Social Stratification
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LMSU RCNE Papers in the BJE 2021

- Berezka, S., Rebiazina, V., & Muravskaia, S. (2021). Changes in consumer behavior in the BRICS countries during the COVID-19 pandemic: The role of trust and anxiety. BRICS Journal of Economics, 2(1), 53–73.
<http://doi.org/10.38050/2712-7508-2021-29>
- Tiantian Li, Ximeng Ye, & Ryzhikh, A. (2021). Consumer behavior in China and Russia: Comparative analysis. BRICS Journal of Economics, 2(1), 74–90.
<http://doi.org/10.38050/2712-7508-2021-30>
- Rozhda, Y., & Sheresheva, M. (2021). Impact of a sports mega-event on the perception of the image of a tourist destination: The case of the 2018 FIFA World Cup. BRICS Journal of Economics, 2(2), 53–83.
<http://doi.org/10.38050/2712-7508-2021-2-4>

Agenda

- COVID-19 pandemics as a society-changing event: literature review
- Consumer response to the COVID-19 pandemic: consumer trust and anxiety in Brazil, Russia, India, and South Africa
- Consumer behavior changes during the COVID-19 pandemic: empirical evidence from Russia
- Differences in Russian and Chinese consumer behavior changes
- Conclusions and future research

COVID-19 pandemics as a society-changing event

Crick & Crick, 2020;
Jordà et al., 2020; Nicola
et al., 2020; Verma &
Gustafsson, 2020;
Berezka et al., 2021

- The COVID-19 pandemic is a society-changing event that can have a profound long-term impact on all aspects of life
- The effect of COVID-19 can be different depending on the country specifics

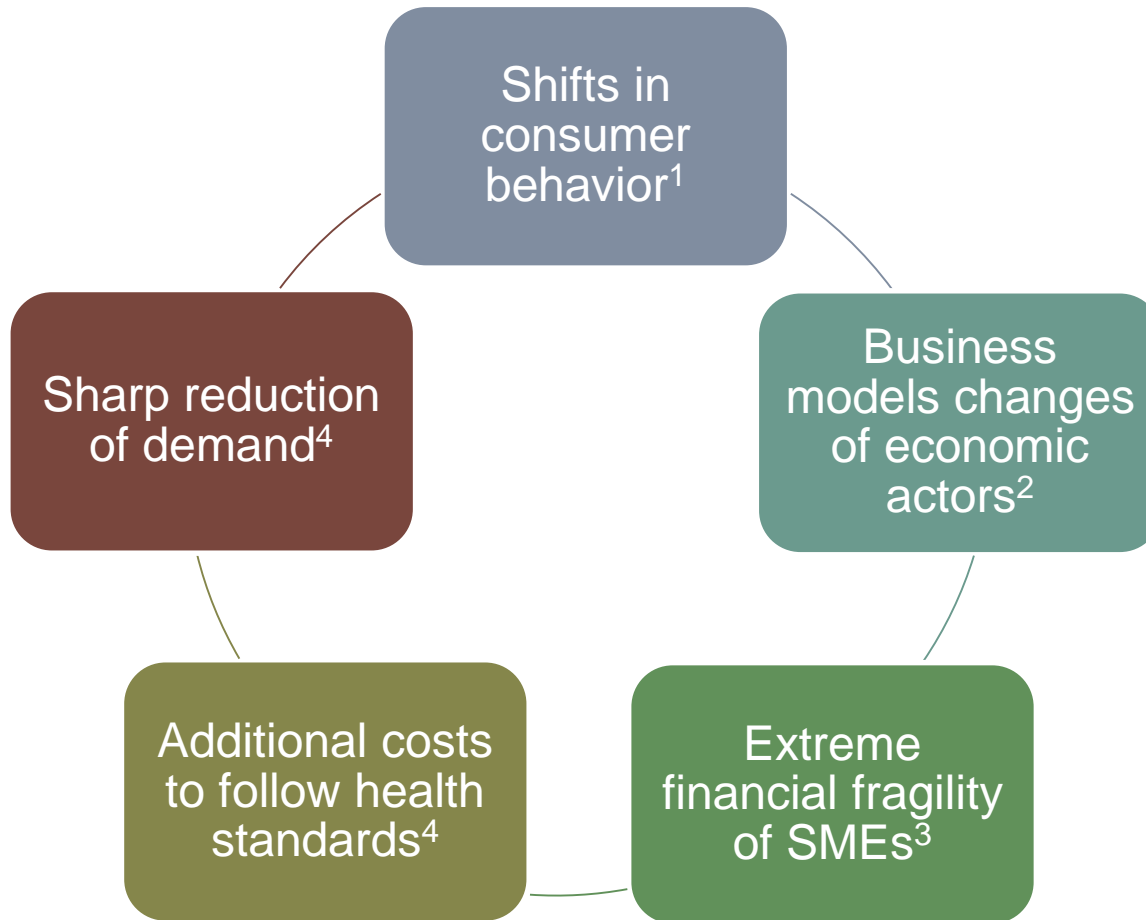
Baker et al., 2020;
Cacciapaglia et al., 2020;
Chang et al., 2020;
Chohan 2020; Gössling
et al., 2020; Romagosa,
2020; Sheresheva, 2020;
Vidya & Prabheesh, 2020

- Markets badly hit by the COVID-19, the impact is unprecedented and devastating
- Well-established, often cross-border value chains ruined - a dramatic situation of “an aggregate supply shock resulting from contagion containment measures with restrained demand and mobility

Mastropietro et al., 2020;
Poljašević et al., 2020,
Kuckertz et al., 2020; Le
et al., 2020; Ximeng Ye,
Sheresheva, 2021

- Emergency measures to protect local firms are in place in most countries since spring 2020
- Each country implemented different measures to contain the COVID-19 pandemic – different results

Influence of the COVID-19 pandemic on business



¹ Donthu & Gustafsson, 2020
Fetzer et al., 2020
Laato et al., 2020
Sheth, 2020

² He Wen Long & Wu Jian Feng, 2020
Priyono et al., 2020
Ritter & Pedersen, 2020

³ Amankwah-Amoah et al., 2020
Dafny, et al., 2020

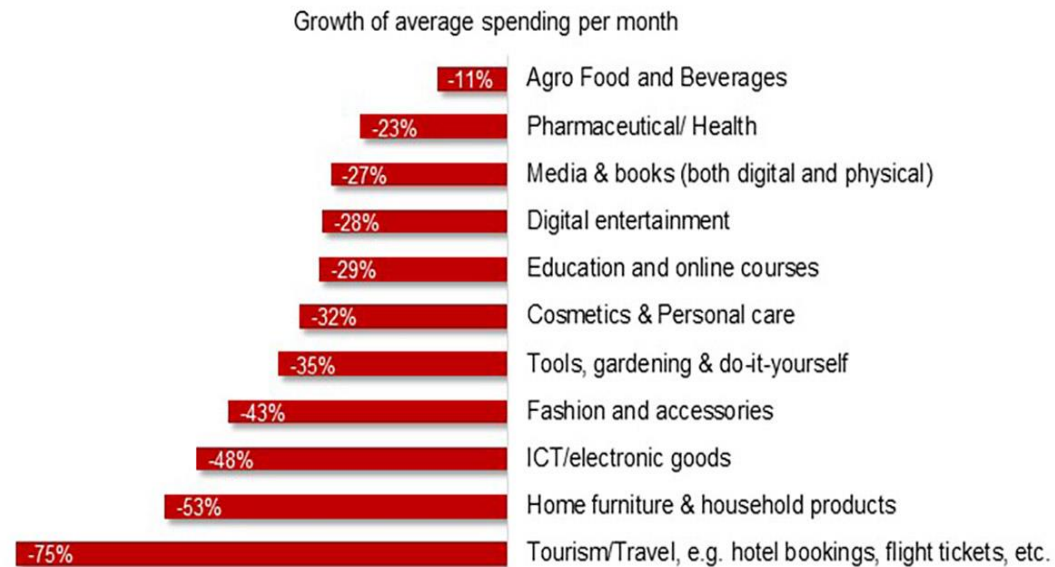
⁴ Parker, 2020
Wang et al., 2020

Influence of the COVID-19 on consumer behavior

Papers	Industry	Behavior	Motivation
Kim et al., 2021 Troise et al., 2020	Food delivery service	Intention to use/accept drones (robots)	Safety
Kirk & Rifkin, 2020	Retail	Reacting, coping, and adapting	Dealing with stress
Ding & Li, 2021 Heinonen & Strandvik, 2020	Service innovation	Recognition and acceptance of innovation	n/a
Foroudi et al., 2021 Im et al., 2021	HoReCa	Risk aversion	Safety
Hall et al., 2020 Islam et al., 2021 Naeem, 2021	Retail	Panic buying	Coping
Peng & Chen, 2021 Yost & Cheng, 2021	HoReCa	Eating out	Risk aversion

Changed consumption patterns

- People are responding to the pandemic in a variety of ways of behaviors and purchasing habits
- Since many had to face loss of revenue or job loss, not everyone was able to spend money at all
- According to *Accenture COVID-19 Consumer Research (2020)*:
 - consumers have become centered on the most basic needs such as hygiene, cleaning and food products
 - consumers worldwide shift to value-based purchasing. Meaning that they try to obtain the maximum value for the money spent
 - a trend to more conscious consumption can be identified. Consumers are more mindful, want to limit food waste, are striving to buy more sustainable options



Changed consumption patterns

- Whether it is because people were unable to visit physical stores or seeking to protect themselves against perceived threats of visiting a store, consumers behavior shifted from shopping offline to shopping online (Youn et al., 2021)
- According to *Forrester Consulting and Bloomreach* study:
 - 90% of respondents said there are avoiding physical stores, adjourning non-necessary purchases, and are trying to or solely buy online
 - 46% of the brands were able to increase online sales
 - another 32% of the brands say their eCommerce was crucial for surviving in the COVID-19 period



Average weekly expenditure
Source: (Hacioglu et al. 2020)

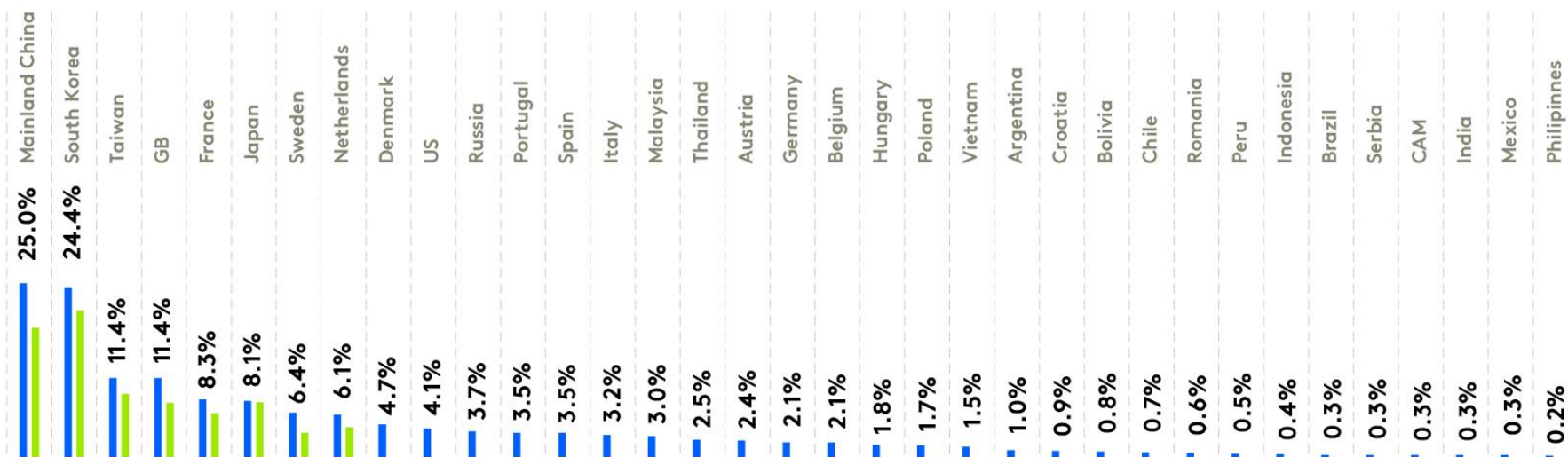
“During the pandemic, online consumption habits in Brazil have changed significantly, with a greater proportion of internet users buying essential products, such as food and beverages, cosmetics and medicines”

Alexandre Barbosa, manager of the Regional Center of Studies on the Development of Information Society (Cetic.br) at the Brazilian Network Information Center (NIC.br). <https://unctad.org/fr/node/28850>

Online value share growing

Online value share in FMCG - 52 w/e Dec 2020 (2019 in green)

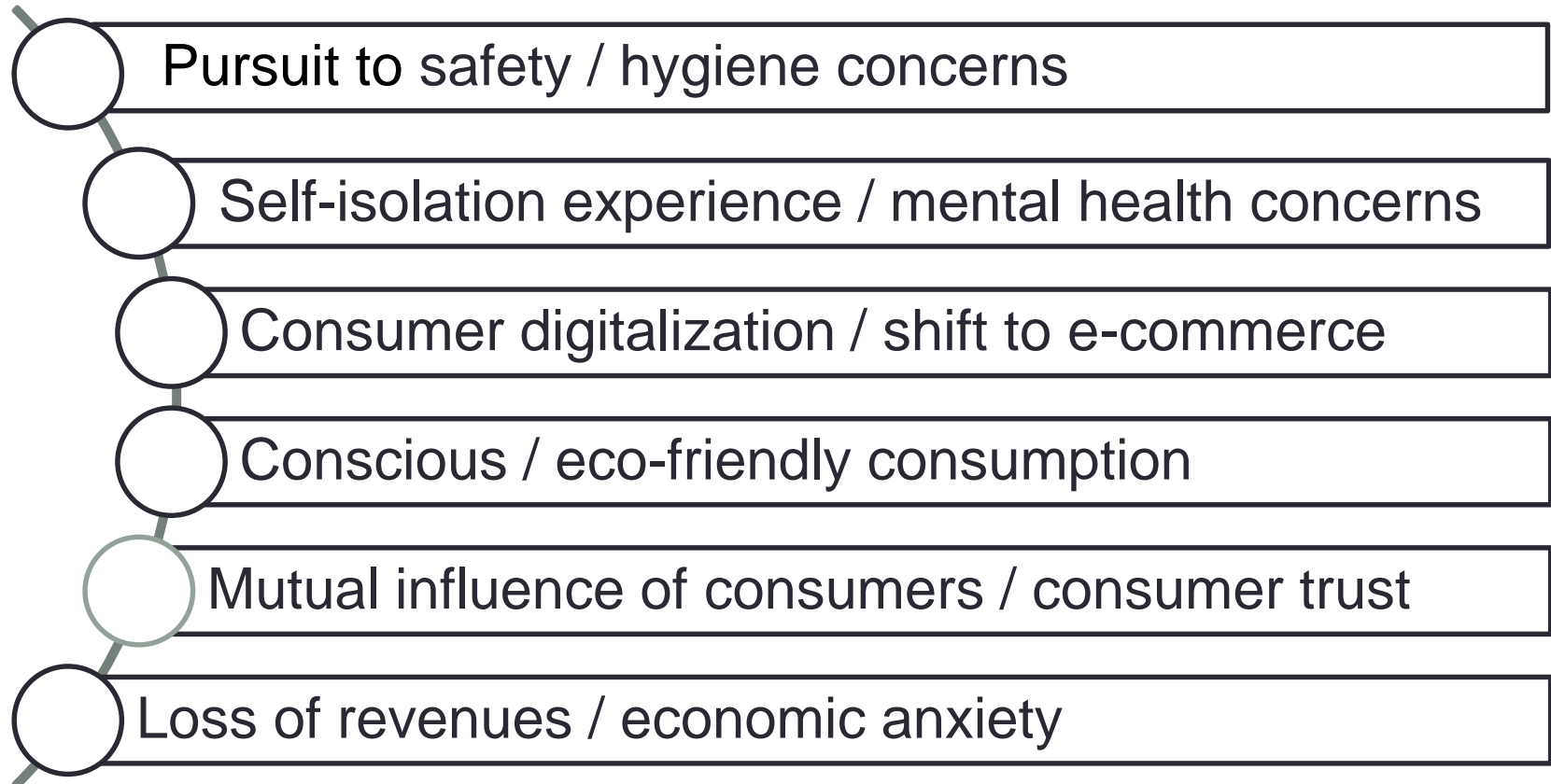
■ 2020 ■ 2019



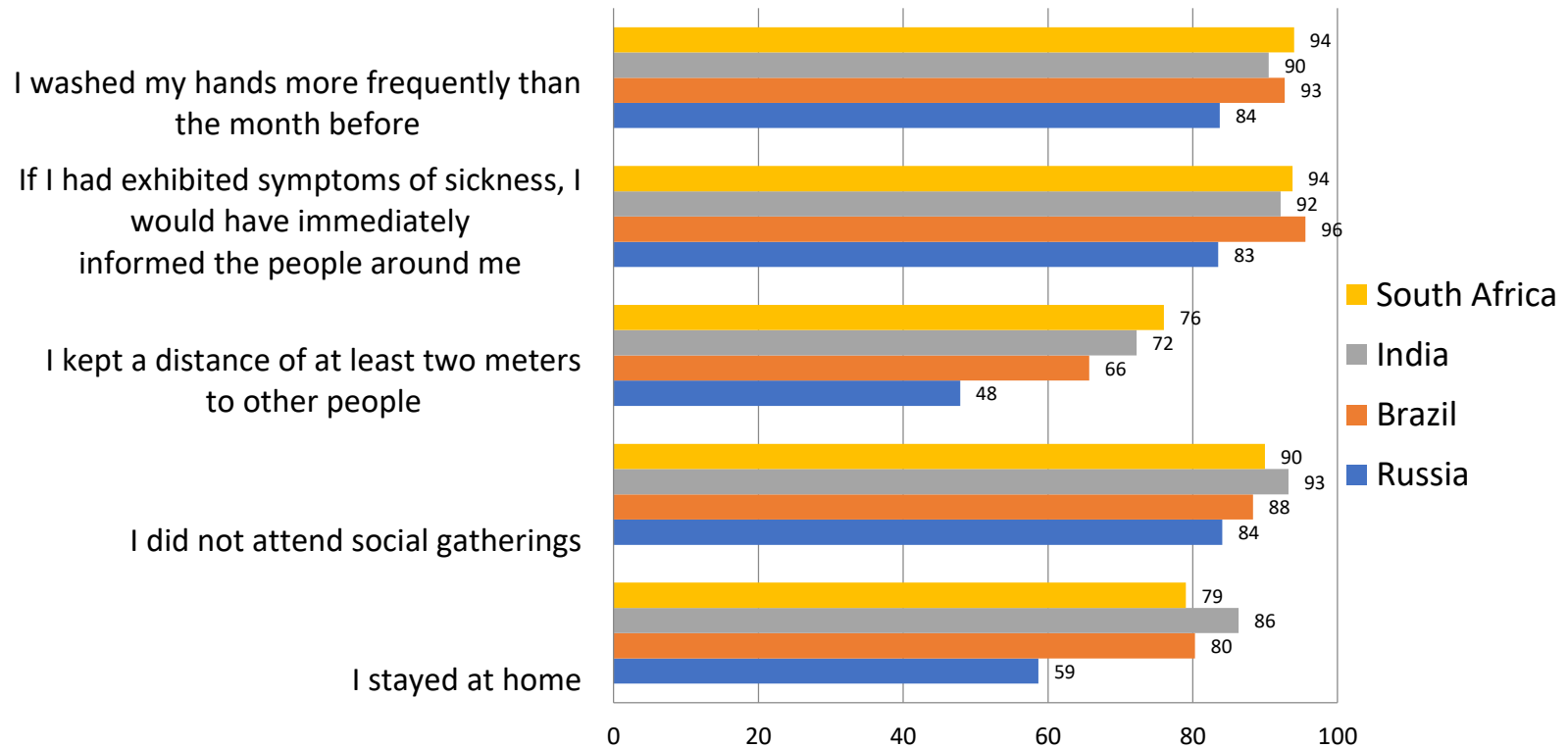
Source: Kantar, GfK, Intage, IRI

- The pandemic has accelerated E-commerce growth in almost all markets. An **additional 5% of global households** bought their grocery shopping online at least once online in 2020 – which is equal to an additional **67m households**. In 2019, eCommerce represented a **4.9%** share of grocery shopping, in 2020 with a growth of **45.5%** this increased to **6.5%** of global grocery sales
- For comparison, E-commerce growth in 2019 was **18.9%**. The strongest growth was seen in Asian markets; 25% of grocery shopping in China. In Russia, online value share in FMCG is in the single digits 3.7% in 2020, 3% in Brazil and India, illustrating the enormous headroom for growth in these eCommerce markets

Changed consumption patterns



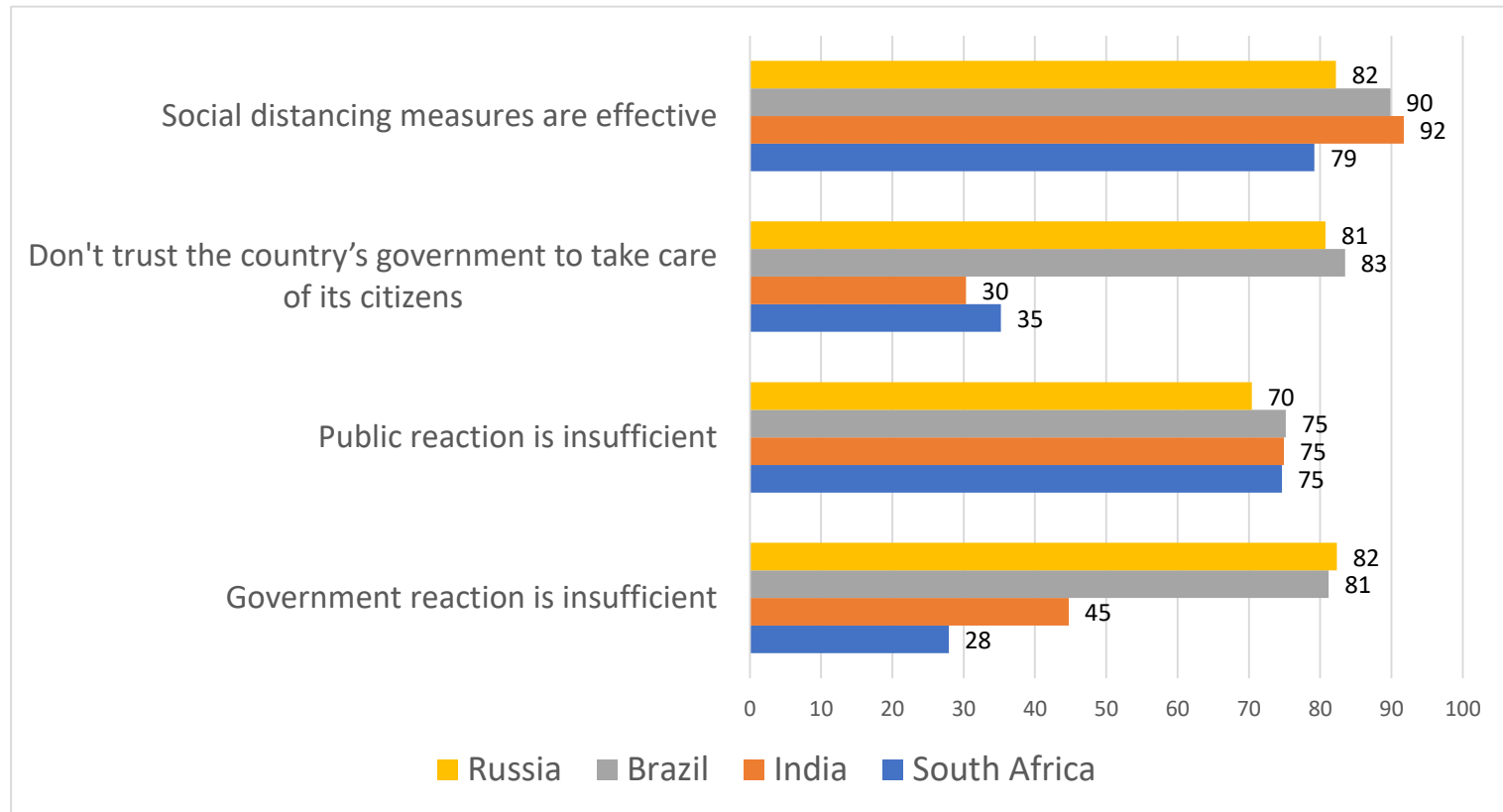
Consumer trust and anxiety



Adherence to precautions, % of respondents by countries. Mean of the answers by country
[0 = Does not apply at all; 100 = Applies very much]

Source: (Berezka et al., 2021)

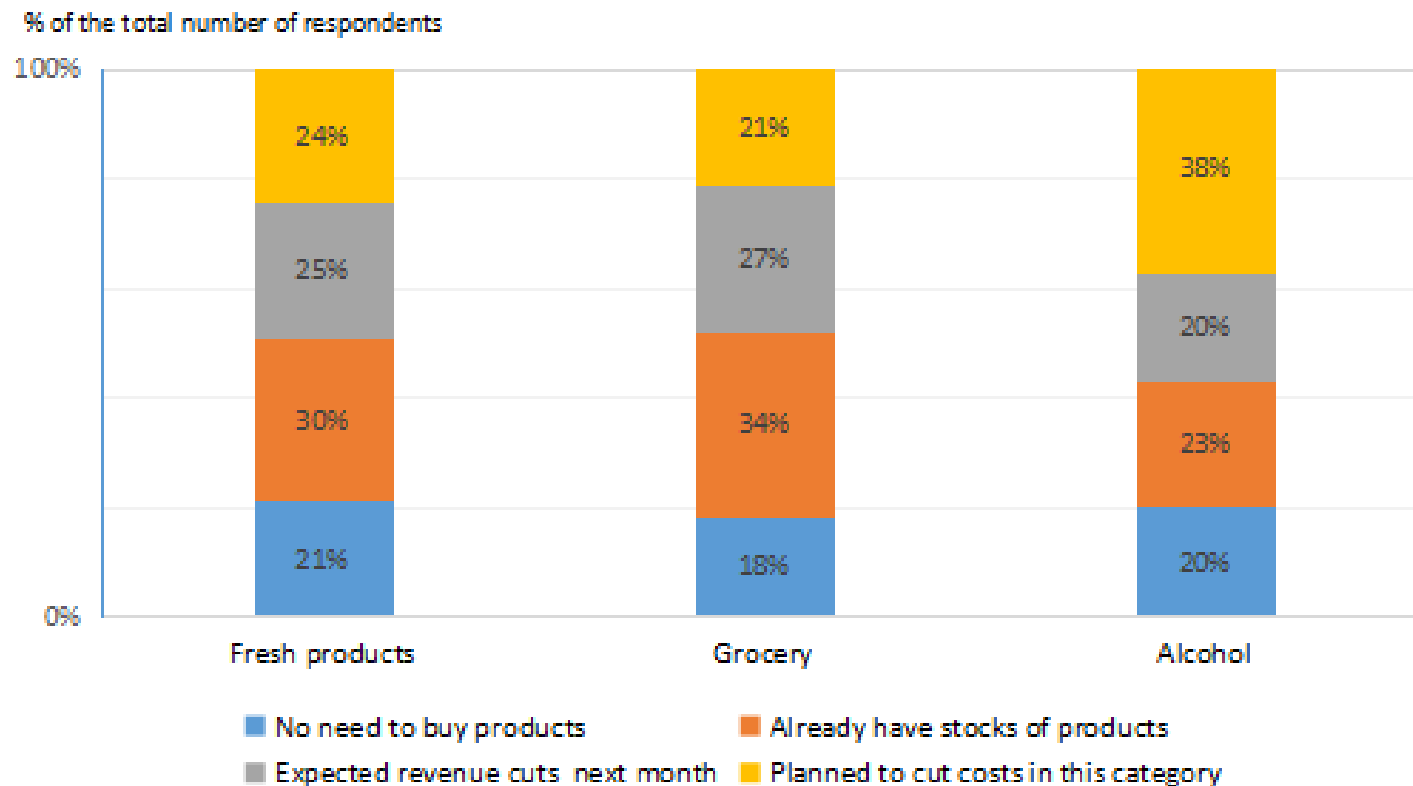
Consumer trust and anxiety



Perceptions of government/public response and trust government to take care of citizens, % of answers “The reaction is somewhat insufficient” and “The reaction is not at all sufficient” by country. Mean of the answers by country [0 = Does not apply at all; 100 = Applies very much]

Source: (Berezka et al., 2021)

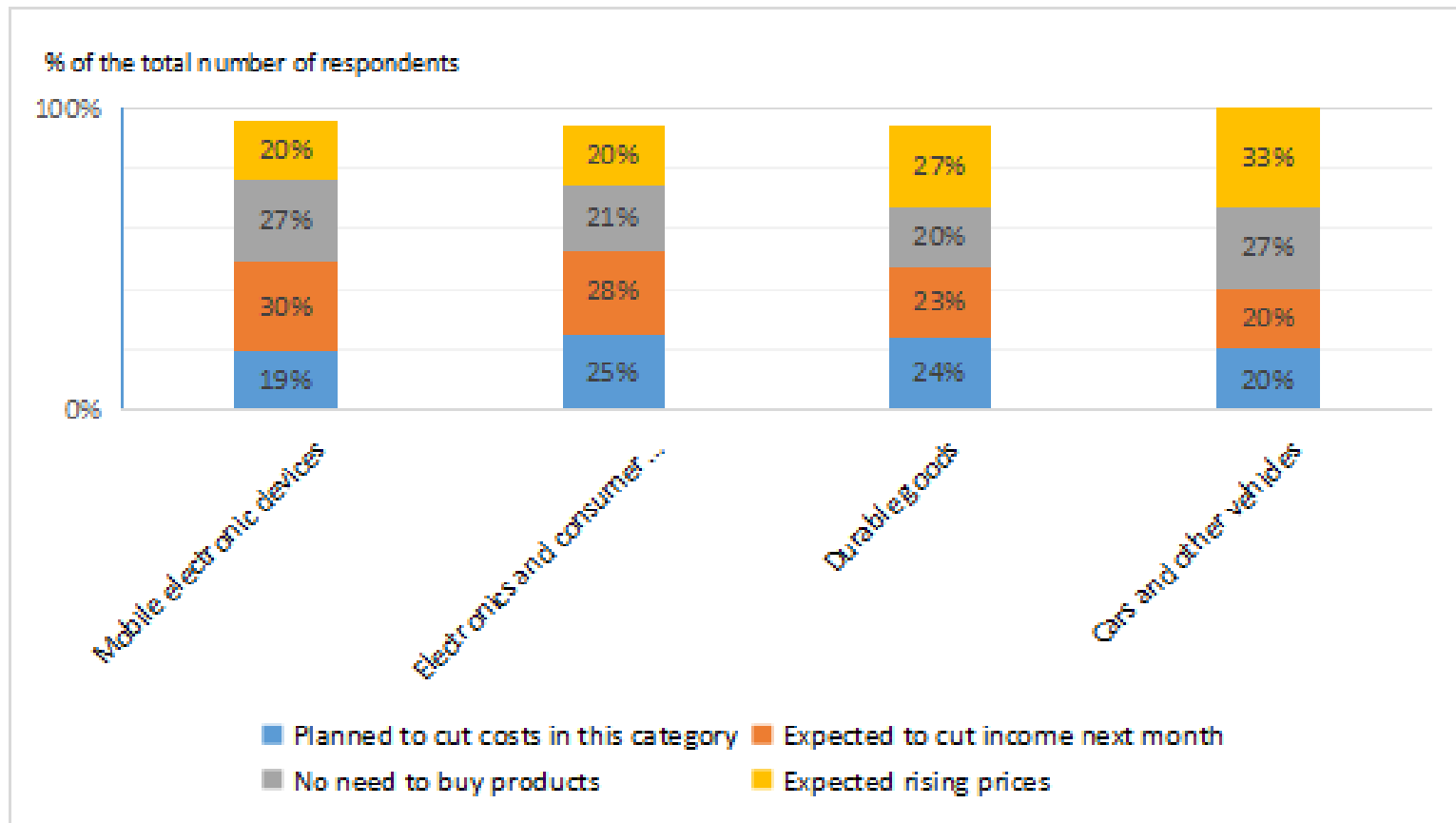
Empirical evidence from Russia



The analysis of the survey database created by BCG and Romir, 2020

Source: (Tiantian Li et al., 2021)

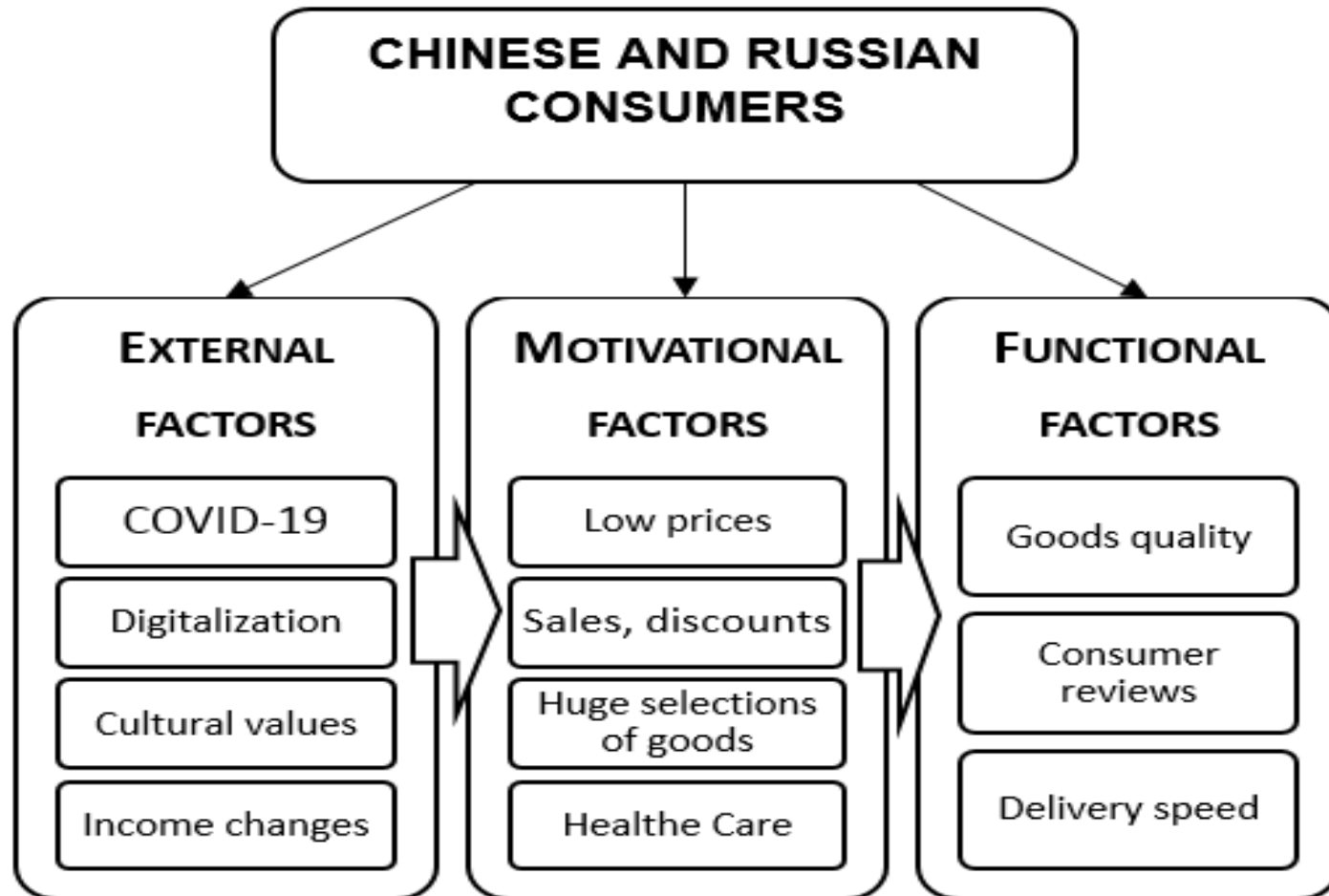
Empirical evidence from Russia



The analysis of the survey database created by BCG and Romir, 2020

Source: (Tiantian Li et al., 2021)

Empirical study on China and Russia: COVID-19 among external factors influencing consumer behavior



Chinese consumer response to the COVID-19

- *iiMedia Research* analysis has shown that the impact of the COVID-19 on Chinese consumer behavior is largely the same as in other countries, including Russia. The consumption of Chinese has become more rational, moderate and practical; more attention is paid to meeting basic needs, to the consumption of medical and health products, awareness of hygiene is increased, confidence in domestic brands is increased
- *McKinsey China Consumer Survey Report 2020* revealed some emerging trends:
 1. New generation consumption in cities with medium and low populations has become a new engine of growth
 2. Most consumers have a classification of consumption some pay more attention to quality and some to cost
 3. The concept of a healthy lifestyle
 4. More emphasis on the shopping experience
 5. Growth in the number of local luxury brands

Chinese consumer response to the COVID-19

- The Goldman Sachs survey results show that compared to changes in wealth, China's consumption growth is more sensitive to changes in residents' incomes
- Low-income China's residents have higher marginal propensity to consume and epidemic prevention measures have a greater impact on industries that employ more low-income people
- Both price increases and decreases were noted in some industries
- Chinese consumers are also looking for new shopping experience, and more companies are looking to new product launches to accelerate production recovery
- Over the past 18 months retail sales in China has rebounded from the trough of pandemic induced recession in January 2020 to a near full-scale recovery – all the way till April 2021 when outbreak of the delta variant in certain cities and regions caused another setback
- Throughout these times retail businesses at large have shown adaptability and resilience against market disruptions

Goldman Sachs: *Understanding China's Economic Recovery Path Based on Consumer Behavior 2020*

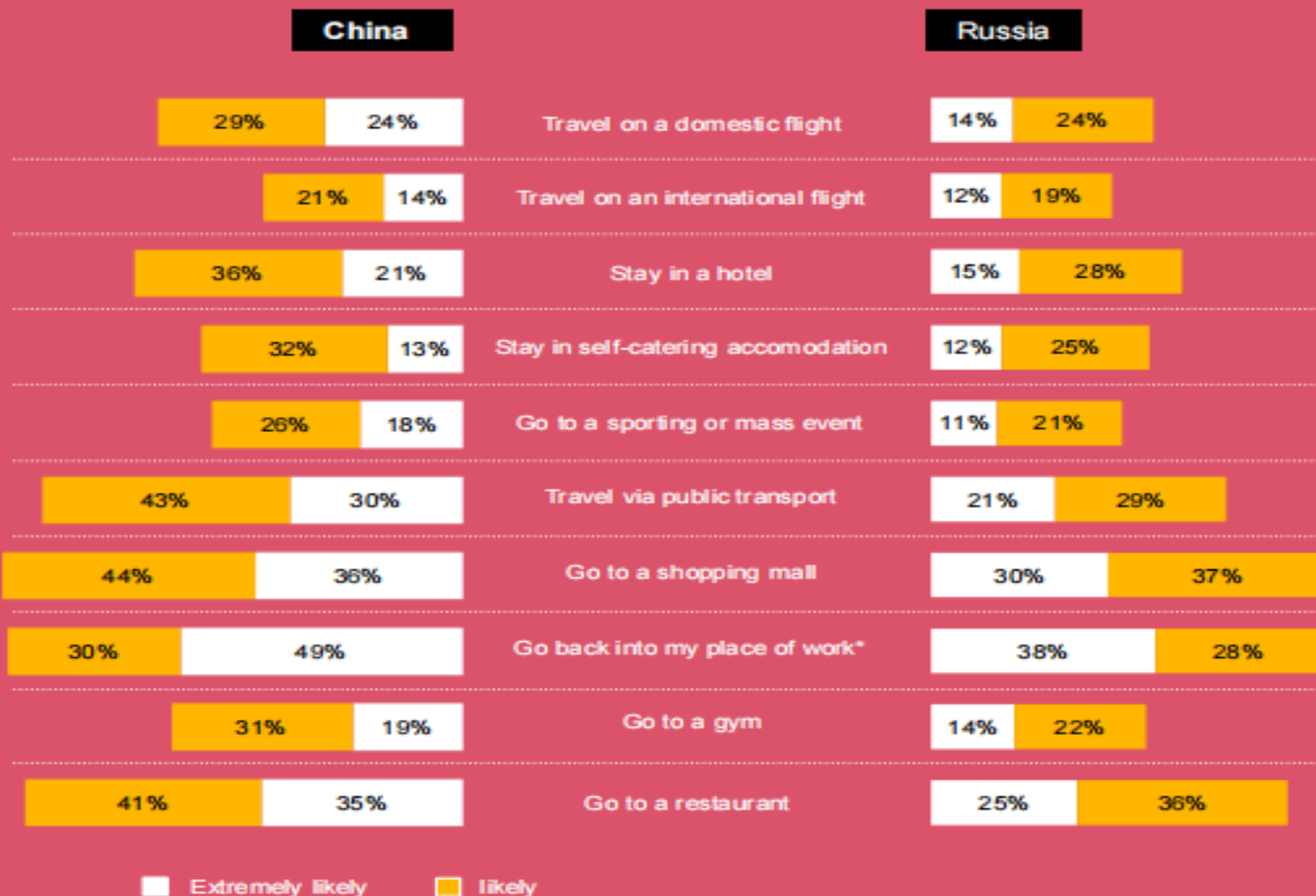
Chinese consumer response to the COVID-19

China's monthly retail sales from 2020 to 2021



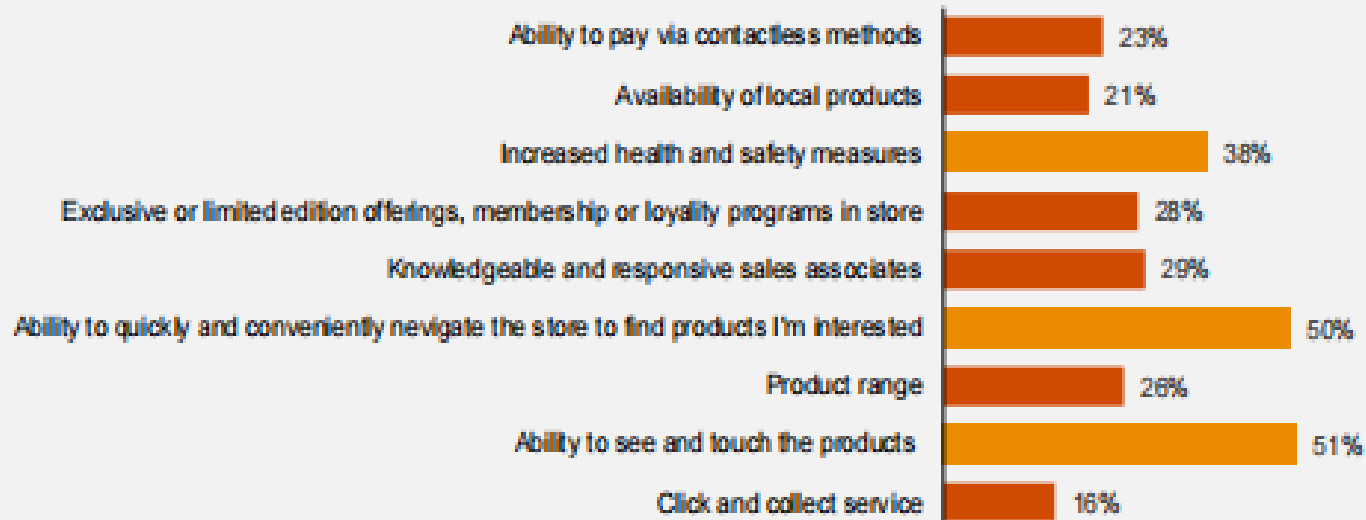
Source: National Bureau of Statistics of China

Q: In the next 6 months you are extremely likely or likely to...

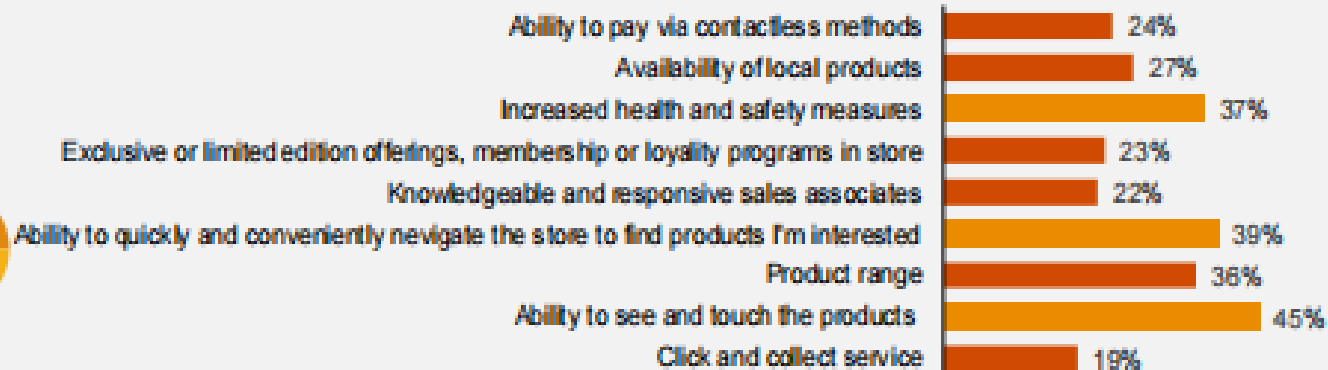


*Only respondents who stated they are employed were asked to answer for this option.

China



Russia



Survey on consumer behavior in Russia and China

- The survey link was distributed on the Platform <https://www.bcg.com/zh-cn/> (China) and <https://romir.ru> (Russia) in June-July 2020
- Completing the questionnaire was voluntary,
- 368 valid responses from Russian and over 500 valid responses from Chinese consumers were received and used in further analysis
- 63% of respondents were female, 37% were male
- The larger age group is people of 25-36 years old (68.89%), their consumption characteristics and income level, in general, corresponds to the general population in Russia and China
- Most of the respondents represent large cities of Russia (Moscow, Vladivostok, St. Petersburg, etc.) and China (Beijing, Shanghai, Guangdong, Shenzhen, Jiangsu)

Preliminary results: consumers in China and Russia

	Russia	China
Awareness of the need	Previous product is out-of-order (60%) Previous product is outdated (40%)	Previous product is out-of-order (50%) Previous product is outdated (50%)
Search for information	Personal experience (30%) Internet reviews (50%) Recommendations of friends / acquaintances (20%)	Personal experience (20%) Internet reviews (40%) Recommendations of friends / acquaintances (40%)
Evaluation of alternatives	Price (30%) Quality (30%) Technical characteristics (20%) Brand (20%)	Price (20%) Quality (20%) Technical characteristics (20%) Brand (40%)
Purchase	Shop (50%) Online store (50%)	Shop (40%) Online store (60%)
Influence at the time of purchase	Seller's consultation (40%) Sales/discounts (30%) Recommendations of friends / acquaintances (30%)	Seller's consultation (20%) Sales/discounts (40%) Recommendations of friends / acquaintances (40%)

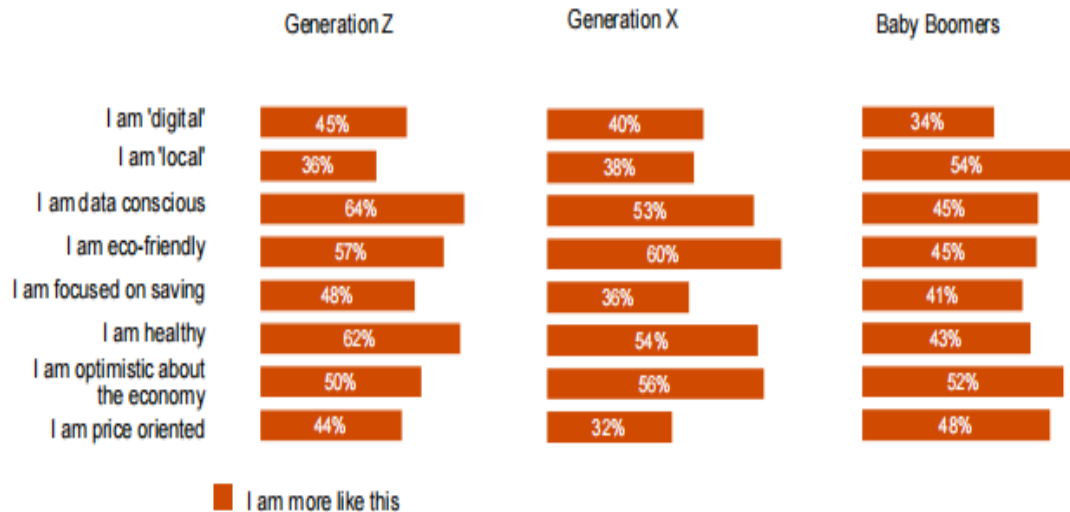
Source: (Tiantian Li et al., 2021)

The generational divide (The young generation and the “silver-haired” generation)

- The pandemic hasn't dampened younger consumers' spending outlook in Russia and China
- They expect to spend more than older generations in the next six months, across product categories — including in nonessential areas such as travel, fashion, and eating out
- They are optimistic about their economic status and circumstances now and are less price-conscious.
- They are also more inclined to describe themselves as “digital”, “data conscious” and “eco-friendly” than the older age groups

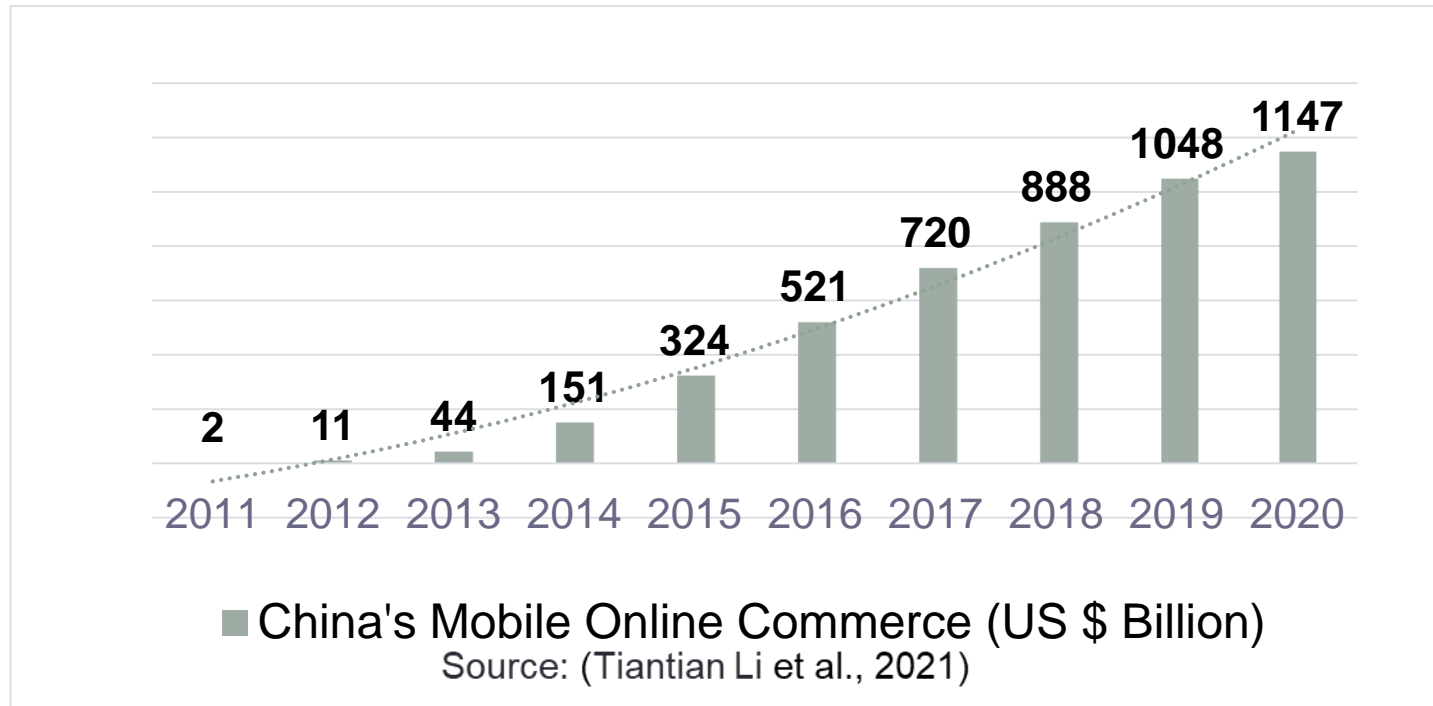
China

Q: Thinking of the last 6 months, please indicate from the list of attributes below how, if at all, you have evolved as a consumer.



- On the other hand, as compared to their Russian and global counterparts, senior Chinese consumers or the so-called “empty nesters” tend to exhibit higher digital literacy, many have skipped traditional computers and gone straight to mobile platforms, where they browse the Internet, watch their favorite soap operas, and do online shopping

Chinese market for e-commerce carried out using mobile devices



China's online trading volumes are growing steadily from \$ 2bn. dollars in 2011 to 1147 bn. dollars in 2020. This is due to the fact that COVID-19 further pushed the fast digitalizing of Chinese consumers (all generations: at the end of 2020, 11.2% of China's roughly one billion internet users were over 60, while the total of 50-and-over users came to 26.3%, up from around 17% in March 2020)

Preliminary generalization of the obtained results

- Drawing on statistical data, as well as on the research results, we suggest that there are factors that determine the choice of a certain type of consumer behavior
- A set of basic factors, namely external, motivational, and functional ones, is applicable to any country but their cumulative influence leads to different patterns of consumer behavior
- Russia and China are rapidly entering a new era of consumption, with the growing importance of digital technologies as tools to cope with the challenges caused by the COVID-19 pandemic
- Still, they clearly differ in the level of digital technologies available to consumers. In China, the deep digitalization and the spread of Internet technologies have led to highly diversified consumer preferences. In Russia, an insufficient level of digitalization does not allow brands to fully interact with consumers and influence their behavior

Conclusions

- It can be seen that COVID-19 and the social distancing mandates has led to different changes of customer habits worldwide
- With the pandemic not being over, so is the process of changing consumer behavior not finalized
- Still, the behavior changes to making online purchases at a high rate will persist after the global pandemic. Many consumers will continue to shop online for non-health reasons, such as time savings, product range, and convenience
- Furthermore, more conscious and sustainable purchases are expected
- So, there are some global trends one can follow. At the same time, our research has shown that there are both common features and differences in consumer response to the new reality in each of the five BRICS countries
- Cross-cultural comparisons are a promising path of future research

Managerial implications

- Businesses are confronted with new additional challenges and have to take into account the changes and trends of consumers after the COVID-19 pandemic
- While many of the new practices observed during the peak of the pandemic are likely to disappear (e.g., buying unusual products and self-isolation), when the epidemiological situation improves, the experiences of consumers will form the basis for changes in their behavior and preferences in the long term
- In a post-pandemic world, companies must respond to and leverage the changing consumer trends to gain a competitive advantage
- Those that strengthen customer relationships by the intensive use of e-commerce and mobile marketing strategy, offer a digital customer experience and innovative business models are well positioned to succeed in the immediate future after the crisis and will generate increasing sales in the future



Marina Y. Sheresheva
m.sheresheva@gmail.com
[0000-0002-8153-7111](tel:0000-0002-8153-7111)