



MALINA NGAI

A.S. Watson

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Group COO,
Asia and Europe CEO

HOW CARING BRANDS CAN RISE ABOVE COVID-19

After excelling as a track and field star and a rower who represented Hong Kong at the highest level, Malina Ngai moved to the executive boardroom. Today, she is Group COO and Asia & Europe CEO of A.S. Watson, the world's largest international health and beauty retailer. We asked her about the impact of COVID-19 on A.S. Watson, looking specifically at the evolving health and beauty consumer needs and what lessons she has learned from the crisis.

How has COVID-19 affected A.S. Watson's business so far?

The global economy has been hit hard by the pandemic and it's been a very tough time for retailers. But our mix of business, geographical diversity, and strong financial foundation has enabled us to be very resilient.

In February, 95 percent of our Watsons China stores were closed temporarily, which certainly affected our business. But as restriction measures gradually eased in Mainland China and as our stores began to reopen at the end of April, we saw a robust sales recovery.

In Europe, footfall on high streets and shopping centers was severely impacted by lockdown measures. But because our major businesses are considered "essentials", most of our stores could remain open during the lockdown.

In the first six months, our revenue dropped by 11 percent, but stepping into quarter three, the decline recovered to low single digits. We've prepared well and are determined to get back to growth in the last quarter of the year.

How have health and beauty customer needs evolved and changed over the past half year?

We conducted a global survey in more than 20 markets in Asia and Europe, asking 22,000 customers about their shopping intentions post-COVID. 100 percent of respondents said they will go back to physical stores for shopping, especially the Gen Z cohort. One-third of those surveyed said they will even shop more often in stores while 80 percent said they will continue to shop online.

The pandemic underlines the desire among customers for human connection. Our customers really want to get back to the physical stores to have the human connection again — touching, trying the new products, and seeing the friendly faces they know and trust.

In the survey, more than 70 percent of our customers told us that their income has been affected by the pandemic. When asked about how their lifestyle would change post-COVID, over 90 percent said they would take part in outdoor activities, followed by cooking at home and doing DIY beauty treatments. This means we will have to adjust our assortment swiftly and continue to enhance the online and offline experience to serve the customer needs.

How did you react to the changes and to the operational challenges? What changes to your business model did you introduce or accelerate? And what are your key lessons learned?

There is no instruction manual for how to lead at a time like this. We are fortunate that what we believe in — loving our people and customers and the online and offline strategy we have been driving — plays its most critical role during the crisis.

We believe in loving and caring for our people. We have 140,000 colleagues globally, and a majority of them work in our stores. At the beginning of the crisis, we prioritized our immediate efforts on their health and safety, proactive communications, and very importantly providing security. This has helped to hold keep our people together to fight the pandemic in high spirit.

Operationally, we immediately adjusted our assortment to ensure we serve the customers' most urgent needs. We also accelerated our online and offline capabilities.

We use digital to stay connected with our 140 million members globally. We enhanced our cloud technology to handle the surge of traffic to our online stores. We mobilized the organization's resources to handle order picking in stores in addition to our warehouses, so that delivery can be completed within the shortest time possible. We

also tripled production of digital content to keep our customers engaged on social media.

With respect to these changes, how much do you anticipate returning to business as usual? If and when will we begin to get back to a more normal world?

No one has a crystal ball on when the pandemic will end and what the new normal means. Some behaviors will stay while some are short-term COVID driven. One thing we are certain about is that customers would want to associate more with brands that care for their people, their customers, and the communities. The COVID pandemic has reinforced our purpose to put a smile on customers' faces, on everyone's face.

In this context, many retail businesses are accelerating the shift toward online and direct business models. With health and beauty moving in

that direction, where do you see your business and business model evolving? And what capabilities are you investing in?

Due to the pandemic, people had no choice but to shop online. This saw our global e-commerce grow by more than 90 percent in the second quarter of 2020. People have become more comfortable with e-commerce and are likely to stick with online shopping in the future, which in the long term will give e-commerce a boost. To stay close with our customers, we developed 30 to 50 percent more digital content for social engagement during COVID-19. In a survey of our customers, more than 75 percent felt that we had managed to stay close with them in the midst of the pandemic.

Online and Offline continues to be our core business strategy and model. As mentioned, our global survey reveals the customers' desire for human connection, and we believe these bonds

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will become even more important in the future. While we continue to invest in offering a seamless online and offline shopping experience alongside industry leading technology, we've also been working to build a lasting and close relationship with our customers.

Customers are more emotionally demanding for relevance, care, and personalization, so we need to show them that we understand, we care, and we want to stay connected to them. All technologies are designed to enhance the customer experience, but they can never take the place of quality service, strong relationships, and personal connections with customers.

And, how do you look at the role of your physical stores going forward? What will a store look like?

Physical stores and online stores are perfectly complementary in our business model. As e-commerce continues to grow in every market, brick-and-mortar stores will increasingly serve as a "third space" — a place that is not only about transactions, but also about human interaction with customers. It is just as much — if not more — about the customer experience, customer service, and creating a unique, engaging environment.

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Customers want in-person service they can't get online. And they want to be able to touch the products.

To keep customers coming back to the physical store, experience-based technology will be introduced in the store to appeal to customers. Apart from the debut of WatsonsGO, the recently upgraded ColourMe service has also been launched in the Watsons app in Hong Kong, Malaysia, Thailand, Taiwan, Singapore, and Indonesia. It uses augmented reality technology to instantly and virtually show customers how they would appear with different looks. Now, even if customers are wearing facemasks, they can

virtually try on any lipstick product they choose. In addition, Watsons Taiwan and Thailand introduced a virtual hair color tool in the mobile app to help customers choose the right hair colorants in the store.

We recently entered the Gulf Cooperate Council market by opening our first Watsons store in Dubai, offering both the online and offline shopping experience to customers in the Middle East, one of the world's fastest growing markets for beauty products. We view this opportunity to unleash the potential of the Middle East market as an exciting and important future growth engine for us.

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For more information, please contact the marketing department by phone at one of the following locations:

EMEA
+44 20 7333 8333

Americas
+1 212 541 8100

Asia Pacific
+65 6510 9700

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