



COVID-19 IMPACT ON CHINA MARKET RESEARCH INDUSTRY

English Summary

China Marketing Research Association (CMRA)

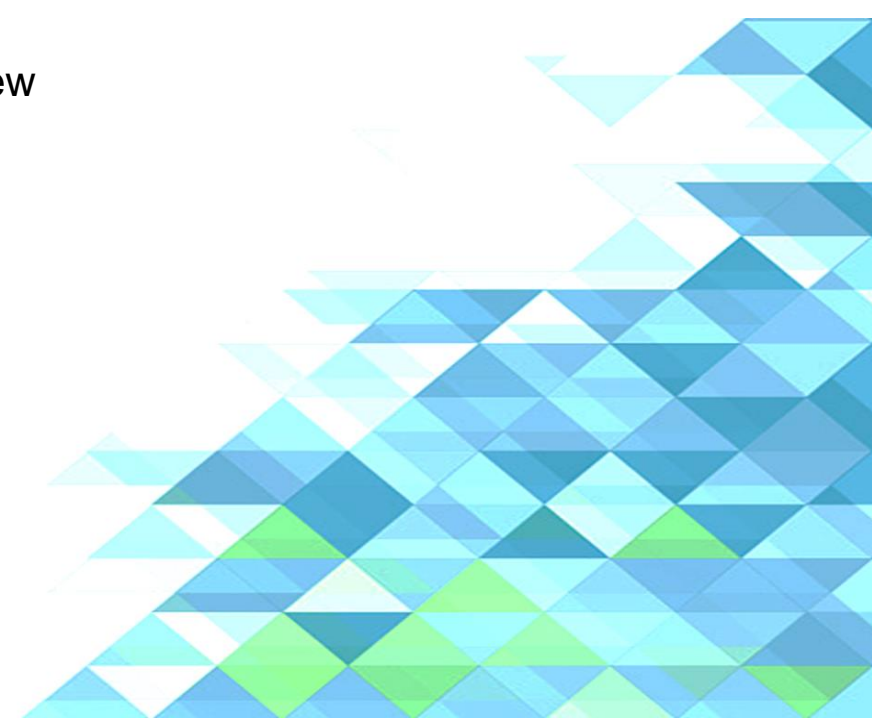
March 2020



Background



- In 2020, the outbreak of COVID-19 pandemic brought a significant impact. To further understand the situation market research is facing, an industry survey was conducted by CMRA in February.
- The objective is to investigate the impact on the industry and member's **business operation, work resumption, response measures**, as well as the perception and expectation of **government policies**.
- Online quantitative research (**161 valid questionnaires**) plus qualitative interview with **25 top executives**.
- Fieldwork duration: 18 Feb to 22 Feb 2020



Key Findings – 1/3

- **Severely negative impact in general**

- 25% of the respondents indicate it's difficult to sustain in a short term and they're facing survival problems
- Q1 revenue drop as a rock, 50% of the companies experienced 50%+ decline, 25% fell by 30%-50%

- **Lower revenue expectation in 2020**

- 44% of companies expected a decline of 30%+
- 42% of companies expected a 10%~30% decline
- As of 22 Feb the business operation did not resume. 25% shut down the operation completely, 40% of the companies recovered less than 20% capacity
- Small-/micro-sized companies are affected significantly than large and medium-sized.

- **Opportunity co-exists with challenges**

- 16% (large and medium-sized) said the epidemic had little negative impact
- 2% (online focused) said the epidemic had a positive impact (the epidemic pushed offline to online execution)



Key Findings – 2/3



- **Labor cost and demand weakness**

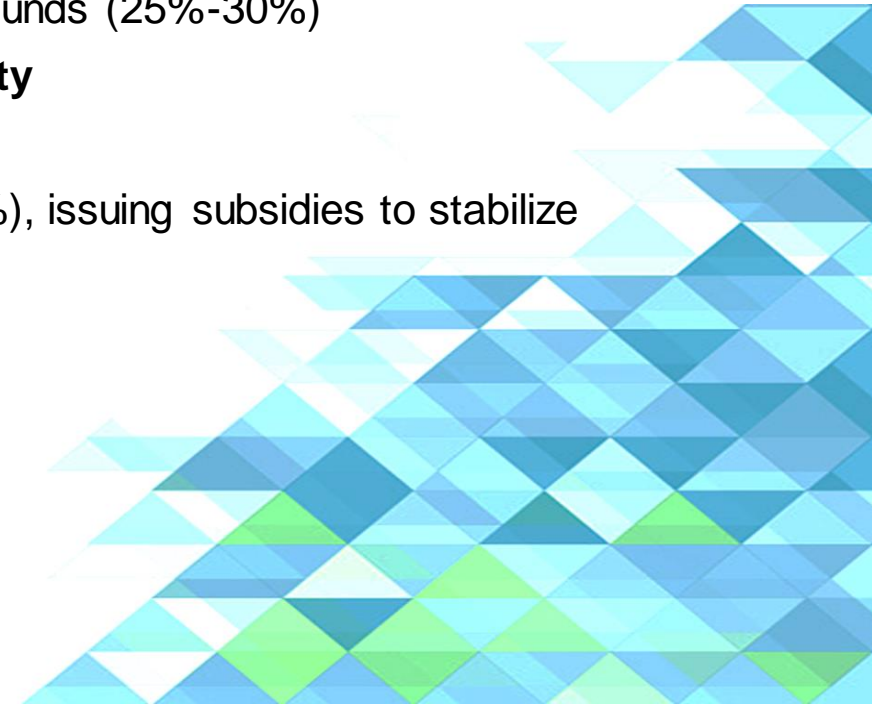
- High labor cost (76%), demand weakness (73%), cash flow constraints (58%), room charge (48%), reduction of projects and obstruction of fieldwork (45%), low work resumption (42%)
- Most of the companies raised funds. 51% of companies reported funding gap above 10%+

- **WFH (Work from Home) changing the operating methods**

- Take measures to explore new business (84%)
- Change operating model, new hiring on-hold, transformation and raising funds (25%-30%)

- **Account receivables and government policies on taxes and social security**

- **Client perspective:** AR in time (48%), increase online survey (11%)
- **Policy perspective:** reducing taxes related to the use of real estate (56%), issuing subsidies to stabilize employees (46%), postponing payment of social security (37%)



Key Findings – 3/3



The findings of the survey on 161 companies could largely represent challenges faced by China's booming human capital-driven modern service industry in the epidemic. CMRA put forward the following suggestions to government departments and upstream and downstream of the industry.

- **Government needs to review the Labor Law and provide more relax conditions for the flexible working system.** Labor Law indicates all flexible work systems need to be approved by government Labor Department in advance.
- **To increase government's procurement of third-party assessment services and drive more demand from offline to online.** Among 161 companies, 24% of 161 companies focused on government projects which fundamentally rely on offline execution. In the epidemic situation, more offline should be shifted to online.
- **Clients, research companies and execution agencies are a common community.** We call for releasing the cash flow running as soon as possible, to ensure the downstream execution agencies can survive.
- **WFH unlocks the relationship among human resource, office, and corporate brand.** It is expected that the sharing of human resources will be common after the epidemic. We need to actively involve in training and regulation to promote the sharing of human resources.
- **To be actively engaged and adapted to the new environment.** Qualitative research is shifting to online execution. Data analytics based on internal data are becoming increasingly important. Only rapid learning and rapid response could grasp new opportunities.

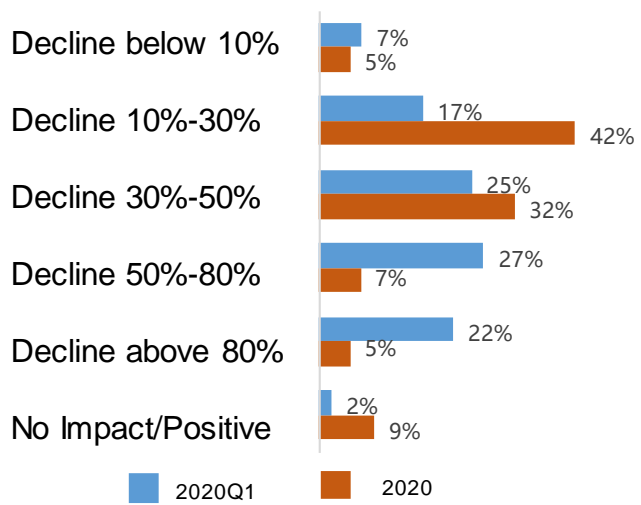
COVID-19 has a Great Impact in China



What's the overall impact on your company? Sample Size: 161



Impact on Revenue Growth YOY



43% in central China stagnated completely, a significantly higher than those in other regions

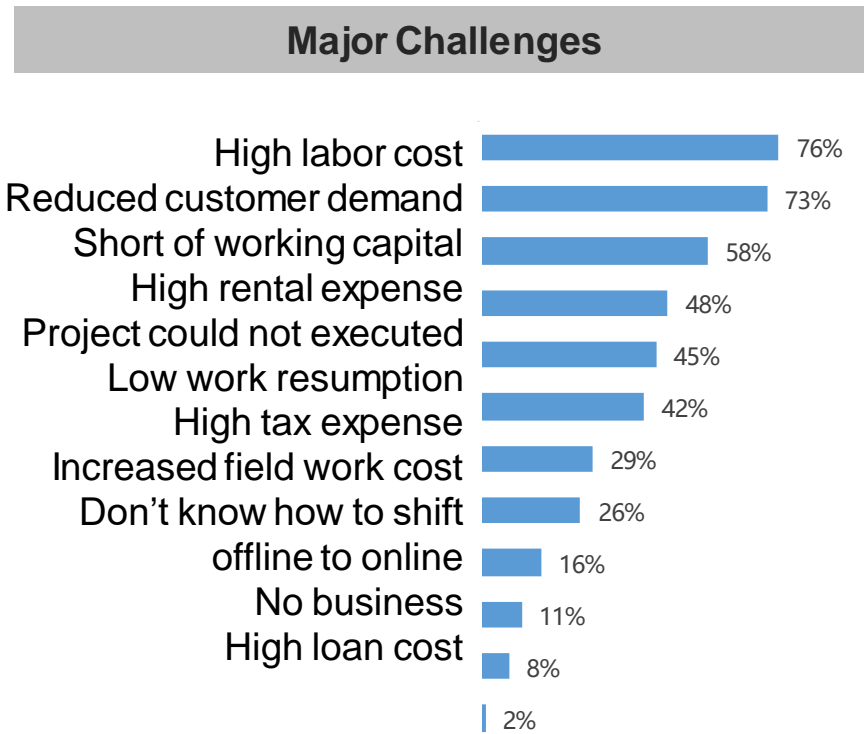
56% of sub-contracting and offline execution-oriented companies recovered less than **20%** of their operating capacity, significantly higher than other business types

The customer's business shrinks, the AR period becomes longer, even difficult to get money, resulting in capital constraints. Offline business has stagnated and revenue fell sharply. The panic spread, the work resumption is far away, work from home inefficiencies, supply chain disruption, and no work to do.
- a Chongqing company

Turnover fell as 97% of operations were suspended. In Q1, January is fine, largely suspended in February, and still unknown in March. A number of projects have been confirmed before the Spring Festival, will be carried out after the year. Affected by the epidemic, the project could not start.
- a Urumqi company

Reduced Demand plus High Operational Costs

Most Research companies are SMEs with small property and heavy manpower assets. Our survey indicated that heavy burden of labor cost (76%) and reduced project demand (73%) are the main challenges



Sample Size 161

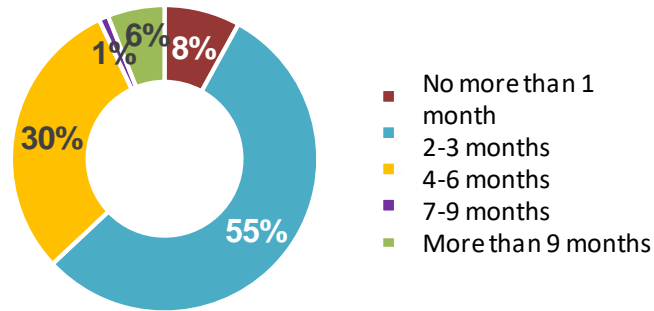
The work does not resume, but we need to pay salary without any income. No new business opportunities, no new project, accounts receivable are delayed, we can only rely on reserve funds to maintain, feel pressure.
- A Xi'an company

Government projects can not be carried out, we're in the listing stage. There is a lot of uncertainty about when the business will resume. Projects with more than 10 million RMB can not be executed. The epidemic has little impact on revenue, but a big impact on profits when implementation starts in July/August.
- a Beijing company

Hubei branch lockdown, only 10% employees are in Zhejiang branch, low rate of work resumption. The customer business is downsized, projects are delayed or converted to online execution. No customer arrange the payment according to normal time remittance, short of funds. The new hires entry suspended, which may lead to a waste of recruitment costs .
- a Hangzhou company

Cash Flow of 60% Companies could Sustain 3 Months

How long the cash flow could last



Sample Size: 161

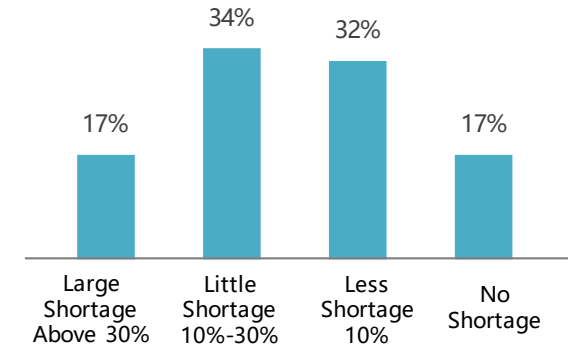
- The cash flow is critical to the small and medium-sized enterprises.
- 62% companies' cash reserves could last less than 3 months.
- Only 7% companies could last more than 7 months.

Assuming that the completed project payback and payment are normal, how long can cash flow last without new project coming in?

2-3 months: **32%**
 4-6 months: **39%**
 7-9 months: **11%**
 More than 9 months: **18%**

- If the signed contract is paid back normally, then even without new project, about half of companies' cash flow could last 4-9 months.
- 18% of the enterprises can support more than 9 months.
- Speeding up the AR cycle is the most effective way to save the company.

Funding Shortage



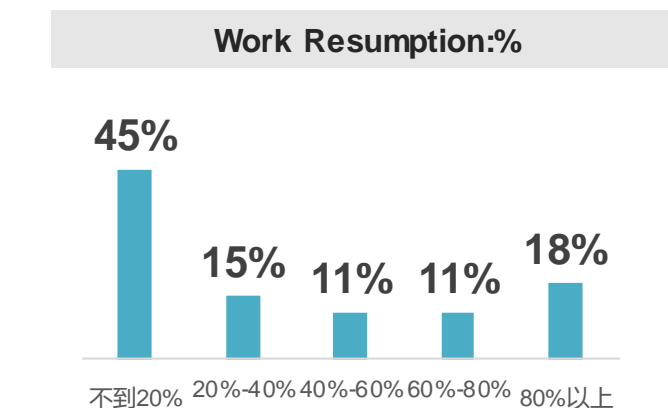
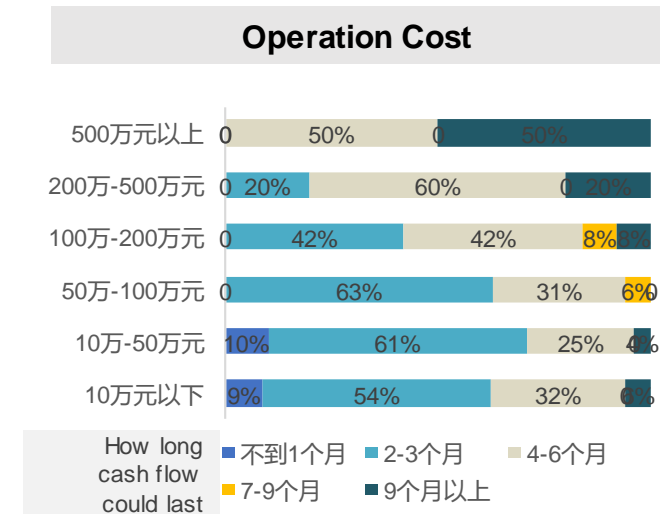
- Over 80% of companies are short of funding.
- 51% of companies have a funding gap of more than 10%.
- 17% have more than 30% funding gap.
- Among the “sub-contracting, execution-centric” companies, the proportion with large funding gaps (30%+) is significantly higher than others.

Business Operation Needs to Ensure Fixed Expense, and to Improve Work Resumption



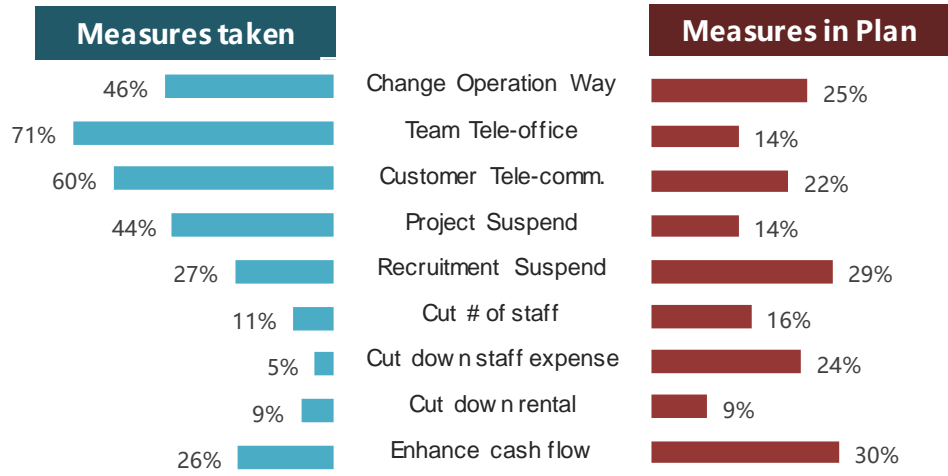
Although the project is suspended or cancelled, companies still need a fixed cost to maintain operations. Monthly fixed operating cost is over 500K RMB in average.

What is the monthly fixed operating cost (staff costs, rent, etc., excluding project costs)?	Total	Sub-contracting off line execution	Sub-contracting online execution	Government 1 st hand project	Enterprise 1 st hand project
Sample Size	161	71	8	39	43
Below 100K Yuan	34%	47%	50%	21%	21%
100K-500K Yuan	45%	49%	13%	59%	30%
500K-1M Yuan	10%	1%	25%	10%	21%
1M-2M Yuan	8%	3%	13%	3%	19%
2M Yuan-5M Yuan	3%	0	0	5%	7%
Above 5M Yuan	1%	0	0	3%	2%
In Average (10K Yuan)	52	25	46	62	91



WFH and Changing Operational Method

- Online meeting is the most common response taken, followed by the changing operation model and projects suspend.
- 26% of companies have started raising funds to increase cash flows.
- The planning response focuses mainly on "new business development (84%)", another 29% considers transformation.



WFH and learning together, to standardize documents, prepare for development, improve organizational cohesion. Maintain communication with customers to understand their needs as the epidemic changes in order to make a positive response, self-financing to go through the difficulties in cash flow.

- a Chongqing company

Increasing revenue and cutting expenditure, reducing expenditure internally, reducing the number of visitors except for the core positions, and to increase revenue through transformation. We are traditional enterprises, although some applications in the field of science and technology, but feel helpless in the face of this epidemic obviously. Plan to develop self-media sample database and information system.

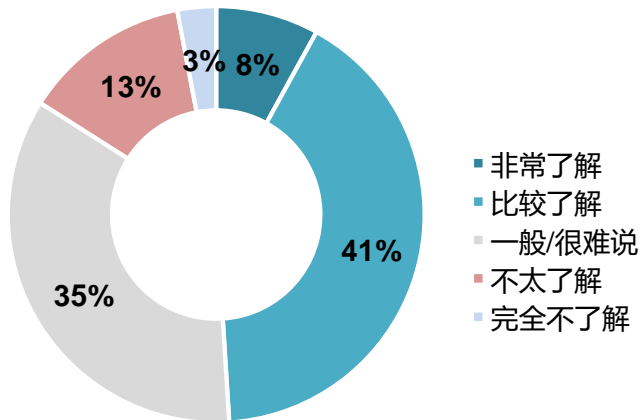
- A Hangzhou company

To keep the organization intact, to keep the team internally, let everyone feel that the team is there, and after the end of the epidemic, they could go to work directly. External, maintain communication with customers, understand customer situation, explore the new ideas, do more things together after the epidemic. Currently, force to change operation model, shift more projects from offline to online operation.

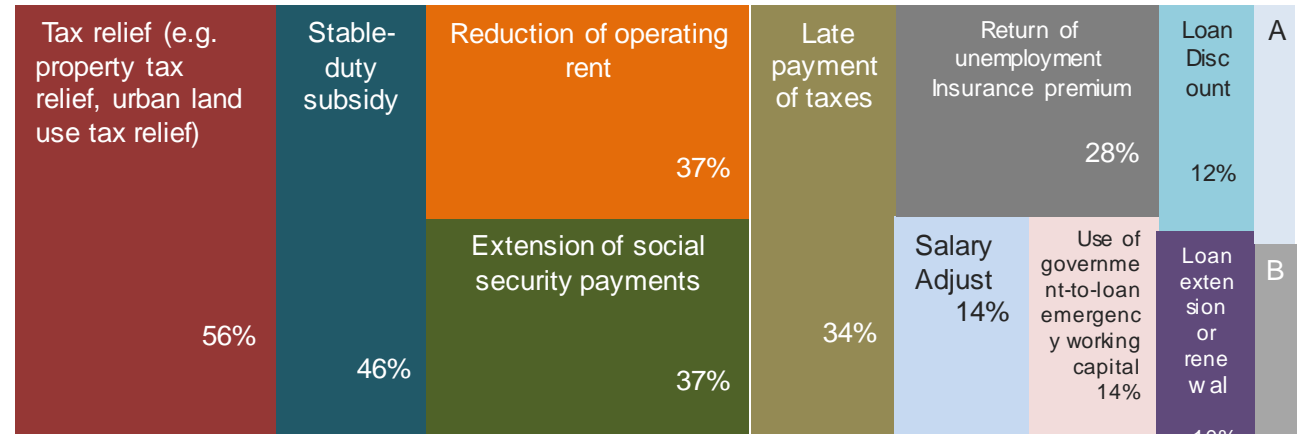
- A Xi'an company

Government Support Policies needs to be More Precise

Perception of government policies



- Research institutions just have a general understanding of local government policies
- 51% response "average" and "no understanding"
- Central China is less knowledgeable than others.
- Companies with 20-40 staffs shows more understanding on government policy than those with less than 10 people.



Note:
 A- handle 6% proof of force majeure for failure to deliver goods on time due to epidemic situation ;4% discount for B- gas water price ;

Regarding to the government policies that companies expect, the most needed policies focus on tax relief (56%). There are also more references to "granting stable-duty subsidies (46%)", "deferred payment of social security (37%)", "reduced operating rent (37%)" and deferred payment of taxes (34%).

Advice/Expectations to Peers, Clients and CMRA



To Peers

Positive response, Confidence, Collaboration

- Focused on transformation and upgrading of traditional business
- Collaborating with the leading companies
- Strengthening the training

To Customers

Flexible, mutually beneficial, quick payback

- Most desired is concentrated at the project implementation level.
- The highest mention is "timely AR (48%)", followed by an increase in the proportion of online implementation (11%)

To CMRA

Training sharing, technical support, and communication

- The desired needs from CMRA are numerous and fragmented
- Most concentrated requirements are "training, technical support" (19%) and "communication with clients for timely AR or shorter AR cycles" (12%)

