

EXPLORING OPPORTUNITIES: DEALING WITH DISRUPTION IN THE CONSUMER SECTOR - VIEWS FROM CHINA (GLOBAL)

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Legal Briefings

China is ahead of other countries in reacting to Covid-19's impact on the consumer sector. By sharing what we are seeing and experiencing in China, we hope our observations and insights may help industry players around the world deal with the disruption caused by the current challenging situation.

It has been more than eight weeks since the first lockdown measures were imposed across Hubei province - the epicentre of the outbreak. China is now past the 'fear' stage but is facing a different set of challenges.

LOOKING FORWARD

In the aftermath of Covid-19, it will be important to rebuild consumer confidence and stimulate consumer spending. Several Chinese local governments have taken measures to shore up the economy, such as issuing consumption vouchers to consumers, relaxing restrictions on obtaining automobile licences, and providing special subsidies for purchasing certain products and services. It is expected that governments around the world will adopt similar measures to support industry.

Companies should also use this situation as an opportunity to review their business plans and accelerate business transformation by using technologies and adopting digitisation.

Many of our Chinese clients also see the outbreak as an opportunity to demonstrate their brand culture and social responsibility. The market is watching how brands and consumer companies are responding to the crisis. Those who provide support to the community and focus on consumers will be remembered and are likely to recover faster than their peers.

This is also a good opportunity to reflect on your company's crisis management and business continuity plans, to see if any improvement should be made to prepare for future crises. Companies may also consider reviewing existing agreements and templates and see whether any clauses (particularly force majeure) need improvement or renegotiation for the future.

LEARNING FROM THE PAST AND PLANNING FOR THE FUTURE

During the initial weeks of the lockdown, companies have focused on the health and safety of employees, business continuity, contractual issues (including force majeure issues), supply chain and logistics issues, and liquidity issues. We will not repeat our advice on each of these areas, about which you can find out more on our [Covid-19 Hub](#)

The key issues below are specific to the consumer sector and are considered by our Chinese consumer clients as important considerations in addition to the general issues.

PRODUCT SAFETY

- While people safety is the foremost priority, it is also of paramount importance to ensure the quality and safety of your products during these challenging times.
- For companies with production plants or outlets, it is important to upgrade the safety levels for production at the facilities and to strengthen other safety requirements such as environmental and food safety.
- Companies should take epidemic prevention and control measures on site, for example, temperature checking, site sterilizing and setting up quarantined areas.

SUPPLY CHAIN MANAGEMENT

- The ability to find alternative suppliers can be vital in order to meet demand or avoid breach of contract if restrictions on movements of goods and people are disrupting your existing supply chain.
- Providing support and guidance to your distributors and franchisees can help stabilise the downstream chain.
- Proactively engaging conversations with various stakeholders (eg landlords, distributors, franchisees, retailers) can help manage expectations and mitigate risks.
- Legal teams should be proactive in assessing the situation, for example, by reviewing business contracts and identifying potential risks for breach or termination, and advising on precautionary measures. Many of our Chinese clients suggested that providing reader

friendly guidance or Q&A checklists to the business teams has helped them handle contractual issues more effectively. Preparing template legal documentation such as force majeure notices might also be helpful.

NEW OPPORTUNITIES VS. POTENTIAL LEGAL AND COMPLIANCE ISSUES

- Many consumer companies are capturing new opportunities and exploring new business models amid the Covid-19 outbreak. In China, many retail companies are moving business from offline to online and trying new consumption and retail models, including live streaming on social media or using virtual reality technologies to promote products. They are also implementing alternative delivery arrangements for consumers to mitigate potential risks for infection, such as "contactless" pick-ups and deliveries. These innovative approaches have been very well received by consumers in China in these difficult times.
- However, companies should ensure that any new, creative ways for brand promotion and products distribution comply with the law, including applicable advertising, e-commerce and data privacy laws and regulations.
- It is also important to pay attention to potential compliance issues under competition law. Price gouging or surges in prices of in-demand products are unlikely to be accepted by the enforcement authorities and customers.

PLANNING FOR WORK RESUMPTION

- As the situation in China continues to ease, many companies are gradually resuming work and production. Flexible work arrangements should be considered when normal business operations resume – for example, employees returning to the workplace in stages, working in shifts and flexible working hours. Companies should monitor the local and global situation closely and adjust work resumption plans accordingly. The impact of the crisis may be felt by different areas of the business at different stages. Companies should plan ahead for evolving situations.
- There is no one size fits all solution for all your entities or outlets within the group as different countries and cities are experiencing different stages of the outbreak. Be cautious about potential second waves of infection when considering work resumption plans.
- Governments around the world have instituted various relief policies for industry. Companies should monitor these developments closely for any that may be relevant to

them. Support for necessary supplies, special funds, tax exemptions and deferrals, force majeure proof and social insurance deferral may be available.

KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.



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