ARTICLE

Retail Today

How European retailers can manage COVID-19 disruption and make it to the other side

Only a few months ago shopping with friends or family was a normal part of daily life, yet now it is considered a potentially perilous excursion for many of us. COVID-19 stunned our economy and shuttered vast portions of the retail sector, with physical retail footfall reportedly dropping by c.80% at its peak.

With restrictions eased, retailers across Europe need to learn to manage through the continued downturn, be prepared for a potential second wave and adapt to an uncertain future.

Retailers are familiar with business continuity plans — they are annual exercises for many retailers, given extreme weather events, distribution centre closures and other local disasters. However, few, if any, retailers planned for a black swan event that would close the entire store fleet for weeks.

Response to lock-down | Stabilise and Protect

When governments implemented lockdowns to stem the spread of COVID-19, all sectors of the economy were impacted in ways that never seemed possible only a few months before. Manufacturing ground to a halt, office workers relocated to home working, the hospitality industry shut-up shop and panic buying placed extraordinary strains on retailers selling items such as toilet rolls and other staples. Government's designation of "essential" and "non-essential" businesses has exaggerated the divide between the "haves" and "have nots" in retailing.

Essential Retailers

Businesses classified as essential retailers, including stores selling food, beverages, basic necessities and pharmacies, were able to maintain store operations and preserve cash flow. In fact, a handful of essential retailers — notably supermarkets — managed to grow during this time of crisis. Nevertheless, even these retailers have been impacted by the pandemic and forced to adapt to new ways of working given the new challenges across the retail value chain.

Planning and sourcing were deeply challenged by panic buying and drastic changes in consumer demand. Demand spikes for essential categories strained supplier capacity, while lower demand for non-essential categories resulted in backlogs of unsold stock and forced the rationalisation of various ranges. Store and warehouse operations changed almost overnight to provide social distancing, to protect both customers and store staff. From a channel perspective, lockdown measures accelerated online shopping, leaving retailers with nascent digital capabilities scrambling to establish an online presence through partnerships with marketplaces and home delivery platforms (e.g., in the UK M&S leveraged Deliveroo to compensate for its lack of an online grocery front and in Spain DIA worked with Glovo to provide a new distribution channel). Given the new working models and lower in-store footfall, retailers were also challenged to maintain effective communication with employees and customers.

Non-Essential Retailers

On the other hand, the reality has been starkly different for retailers deemed non-essential by government mandate. With the majority of the population following stay-at-home advice, non-essential retailers ceased store operations. Even while some brands resumed eCommerce operations, the shuttering of retail store fronts brought cash inflow for most non-essential retailers to a halt. Therefore, these retailers focused on hibernation and went into crisis management mode, prioritising hoarding cash, furloughing staff, developing new ways of working and communicating effectively with employees and customers.

In order to hoard cash, retailers reduced people as well as non-people expenses and cash outflows, closely tracked short-term cash flow, and leveraged available lines of credit including hastily announced government schemes. Non-people expense reduction initiatives included suspending payment of dividends, stopping discretionary capex spending, reducing most non-digital marketing spend, and reducing open procurement orders. People related cost reduction initiatives included furloughing store employees, terminating interns and contractors, downsizing corporate staff, reducing salaries of top executives and corporate staff and freezing hiring of any non-essential roles.

Retailers, along with other companies, were forced to develop new ways of working to follow government regulations. Store layouts were reworked to maintain social distancing and protect employees and customers. New operating routines were developed to manage deliveries and replenish shelves. Working patterns in distribution centres were adapted with new shift patterns introduced to spread workload and manning requirements. Back-office staff and other staff had to adapt to remote working and across operations cross-utilisation of staff between departments became more common.

Communicating effectively with employees and customers became a critical priority. Retailers had to develop strategies to stay in front of employees and customers even while stores were closed. That has proven critical to providing updates from both a business and humanitarian perspective, as well as to continuing to provide a positive customer experience. New digital services emerged with retailers experimenting and launching new approaches. For example, Currys PC World launched the “ShopLive” virtual shopping experience, giving customers an in-store experience from their own homes via video link with brand experts.

Leading Through the Downturn | Near-Term to Post-Pandemic

Now that the next phase of eased restrictions is upon us and non-essential retailers have re-opened stores, companies must shift their attention to managing through the downturn, and being well positioned to emerge from the pandemic environment. There are a number of important steps that businesses should take to protect and strengthen their position, including communicating with customers; optimising operations; monitoring the likely state of recovery; strategising and stress-testing exit plans; launching public affairs programs to mitigate any scrutiny associated with government relief assistance; and clearly articulating mitigation plans to stakeholders.

STRATEGISE

Customer behaviour

- Shopping and life habits could be forever changed for many consumers. Retailers should engage with key customer segments to understand implications for long-term shopping, purchase and consumption drivers across dimensions including:
    - Channel (online home delivery, online click & collect, in-store shopping)
    - Category (fresh vs frozen vs canned; comfort vs health; or casual vs business attire)
    - Frequency and average basket size (small baskets, high frequent purchases vs large baskets, weekly shop)
    - Trust vs Value (brand loyalty, buy local vs value and private label)
    - Consumption location (cook at home vs food on the go vs on-premise)
    - Consumer vs shopper (Shop for self vs shop or collect for others)

Store footprint

- Evaluate longer-term restructuring solutions with landlords and lenders, including pushing for lower rent rates through Company Voluntary Arrangement (CVA) or negotiations as the situation allows.
- Close low volume / low profit stores based on new economic realities.
- Redesign layouts to deliver enhanced experiences, meet new customer service expectations or manage online orders and returns.

Digital channel development

- Invest in online channel development to meet changing consumer shopping behaviour and increase resilience for both the short and long term. Decide which rapidly introduced solutions such as delivery platform partnerships, take away, marketplace and acceptance of click & collect should be retained through and beyond the downturn.
- Develop desktop and mobile shopping platforms, online merchandise strategy, digital performance analytics and supporting supply chain capabilities.

Marketing

- Define pricing and promotional strategy and cadence for remainder of year and through the continued downturn with potentially lower consumer buying power.
- Accelerate rebalancing of marketing spend from traditional media to online and social media platforms.

Supply Chain

— Build supply chain agility to rapidly respond to shocks in supply and demand and consider leveraging local supply, dual supply and alternative brands.
— Develop enhanced supplier management strategy to provide future stability and continuity of supply.
— Form long term relationships to deliver enhanced services and provide contingency.

Communications

— Develop communications and change management programme to help teams understand the shifts that need to happen in order to quickly implement plans.
— Create messaging platform for the recovery period that puts people first, highlights the underlying strengths of the business, and conveys confidence in the future.

OPTIMISE

Cost management

— Evaluate corporate and SG&A functions for cost reduction opportunities, which may include corporate downsizing, remote working and outsourcing.
— Build operational resilience through automation and continuity planning.
— Evaluate vendor agreements to identify contracts that are no longer competitive.

Planning

— Move from long-term forecasting to demand sensing and ensure rapid decision making.
— Track inventory levels across all nodes of the network and redeploy as necessary to maximise sell-through.

Merchandising and stock management

— Assess broad range of scenarios (including possible resurgence of COVID-19) for autumn/winter/spring inventory; balance lost sales and inventory sell-through risk.
— Finalise end-of-life strategies for inventory not sold through by the end of the season (e.g., delay floor set of autumn styles, return inventory to the DCs to hold for next year).

Returns

— Re-assess returns policies, with returns likely to increase as a result of increased online sales.
— Redefine returns operations to economically meet quarantine and social distancing requirements.

Business operations

- Adapt processes to support rapid decision making in response to uncertain and rapidly changing trends and events.
- Redefine working practices like remote working and changed shift patterns for the new reality, and re-balance employees across departments to support critical operations.
- Automate operations to reduce touchpoints, with a focus on areas with higher employee density.
- Assess options to enhance visibility and management of franchise stores and operations.
- Enhance IT systems to support a more agile, remote and online business.

Financing

- Re-evaluate debt financing for the longer term.
- Identify and implement actions to improve the balance sheet.

MONITOR

Monitor traditional and social media and other forums to understand rapidly changing consumer trends and shopper behaviour.

- Monitor signals of economic recovery (both acceleration/deceleration) and adjust strategy.
- Monitor analyst reports and competitor news to understand how industry stakeholders are thinking and what competitors are doing.
- Monitor cash and update scenario planning.

ENGAGE

- Continue the positive increase in engagement with employees, suppliers and customers and put in place the right listening mechanisms to anticipate emerging issues and adjust strategies.
- Communicate a clear vision for the future, specifically highlighting steps the company is taking to care for employees, customers and other partners while also protecting enterprise value.
- Engage, as appropriate, with media, investors, analysts and other third parties to shape the narrative around the business, mitigate any criticisms and build confidence in the future.
- Train and support functional and field leaders in accelerating the adoption of any new ways of working, and keep teams motivated and sharing progress.

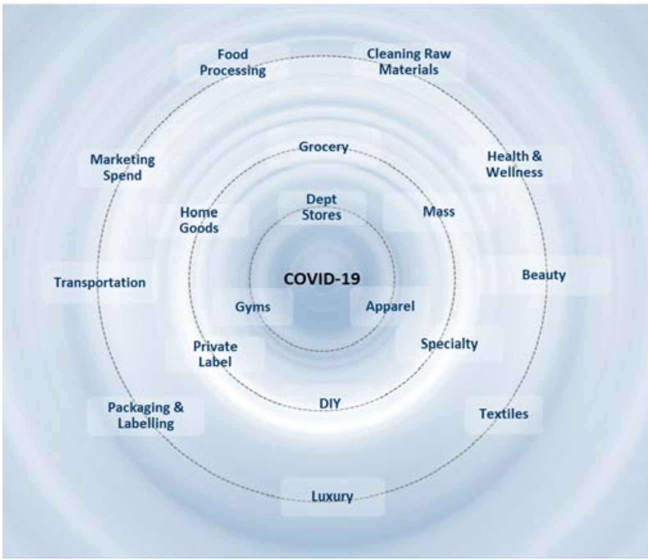
The global response in attempting to contain the COVID-19 virus has caused an economic shock unprecedented in its speed and intensity, the effects of which will continue into 2021 and likely beyond. Even as the daily number of new cases declines and stabilises, and restrictions ease, it will likely be several months before life as we knew it resumes. This could be prolonged further by a second wave. In any case, many consumers will remain apprehensive about large public gatherings and close contact for months thereafter, until they are firmly convinced that this threat has passed. This presents a quandary for retailers and other consumer-dependent businesses, as challenges will remain long after store doors have reopened. The challenges are twofold, as retailers will have to contend with the economic impact of recession on shoppers as well as their likely reluctance to fully embrace pre-COVID-19 lifestyles.

Given these challenges and unprecedented levels of uncertainty, retailers must adopt scenario based long-term strategic planning along with a short-term cash flow mindset, whilst ensuring agility and resilience are at the core. Things will be different for the foreseeable future, and retailers need to be prepared to adapt to a new reality that we cannot yet completely envision, but one that almost certainly will heap new challenges upon an already beleaguered industry.

The Economic Ripple Effect

Variables surrounding initial outbreak, detection, spread and reporting of the disease have varied significantly since January 2020, and accurate projections are difficult to provide. But the economic impact has been rippling through the retail industry.

The government's designation of "essential" and "non-essential" businesses exacerbated the divide between the "haves" and "have nots" in Retail. Although businesses classified as "essential" have been impacted by the pandemic, they have maintained operations and preserved a degree of cash flow. A handful of essential companies even managed to grow during lockdown, notably supermarkets and manufactures of cleaning and disinfectant products. The reality is starkly different for retailers deemed "non-essential" which have ceased operations and have tremendous pressure placed on their top and bottom line.



DAVE PHILLIPS
Managing Director
+44 (0) 20 3727 1033
dave.phillips@fticonsulting.com

EDUARDO DÍAZ
Managing Director
+34 607 825 715
eduardo.diaz@fticonsulting.com

KARIM HADDADIN
Senior Consultant
+44 (0) 20 7632 5021
karim.haddadin@fticonsulting.com

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