How retailers can manage and recover from COVID-19

Strategy& Retail & Consumer Team
April, 2020
While Asia is moving towards recovery, the impact of the COVID-19 crisis arrives in European and American retail

**Observations**

- **Similar patterns in most countries**: Rapid exponential growth followed by a slowdown due to effective countermeasures.

- **Impact for retailers materializes once countermeasures begin** (mandatory or voluntary, e.g. lockdown of stores/quarantine).

- **European retail sector is just at the beginning/peak**, while retailers in China and South Korea move towards recovery.

---

**Current state of the COVID-19 crisis**

![Graph showing the number of new COVID-19 cases over time, with markers for countries like USA, Germany, Italy, South Korea, and China, indicating different phases of the crisis: retail lockdown, retail recovery (lockdown removed), and various scenarios for "beyond crisis".]
The crisis impacts retailers’ supply chains from different angles

Supply chain impact from COVID-19

| Obstructed logistics | Increased hurdles to transport goods over long distances or internationally through **border closures** (long traffic jams) or **shut down of logistics hubs** (e.g. harbors, airports) |
| Constrained/ shut down suppliers | Change in **supplier reliability** as a result of short-time work, sick workforce, or factories being closed. Entire **supply chains broken** due to country lockdowns, missing raw materials, longer lead times, etc. |
| Disrupted demand | Change in customer demand with **spikes for certain products** (e.g. sanitizers & masks, long lasting staple foods) and **lack of demand for others** (e.g. travel accessories, fashion) |
In addition, a sales decline can be observed across categories – most evident in clothing, household goods and furniture.

**Sales impact from COVID-19 – China’s retail sales development**

Retail sales per category, in % accumulated growth, as of February 2020

---

**Total Retail Trade**

- Apparel & Footwear: -33%
- Home & Furniture: -34%
- Electronics: -20%
- Health & Beauty: -14%
- Food & Grocery: 10%

**Online Retail**

- Online Apparel & Footwear: -18%
- Online Food & Grocery: 26%

Source: Chinese National Bureau of Statistics, Strategy& analysis
Overall, the COVID-19 impact depends on the category focus and the sales footprint of retailers

**Sales impact from COVID-19 – Sales footprint and category focus**

<table>
<thead>
<tr>
<th>Category</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apparel &amp; Footwear</td>
<td>“Store lockdown”&lt;br&gt;Severe impact, with 70–100% reduction in sales&lt;br&gt;Need for short-term measures to ensure business continuity</td>
</tr>
<tr>
<td>Home &amp; Furniture</td>
<td>“eCommerce shift”&lt;br&gt;Reduction in consumer demand, and/or shift to online channel&lt;br&gt;Need for eCommerce operations in “crisis mode”</td>
</tr>
<tr>
<td>Electronics</td>
<td></td>
</tr>
<tr>
<td>Health &amp; Beauty</td>
<td></td>
</tr>
<tr>
<td>Food &amp; Grocery</td>
<td>“Grocery panic”&lt;br&gt;Change in demand patterns&lt;br&gt;Risk of supply chain disruptions&lt;br&gt;Need to stabilize operations</td>
</tr>
</tbody>
</table>

**Mainly Brick and Mortar**<br>... face sharp sales decline due to lockdown restrictions and/or missing consumer footfall in non-grocery categories

**Omni-Channel**<br>... struggle with the rapid move towards the online channel and need to ensure eCommerce operations are in “crisis mode”

**eCommerce Pureplay**<br>... can partly capture lost sales from brick and mortar, but deal with atypical demand patterns (e.g. sanitizer, health products)
As we emerge from the crisis, COVID-19 will continue to boost eCommerce as consumers will stay with the online channel

Sales impact from COVID-19 – Outlook on Germany’s E-commerce development

Online share per category, in % of total sales, 2017, 2020, 2023F

- **Apparel & Footwear**: Limited potential for “channel switchers”, as traditional store customers will postpone purchases until after crisis and then revert to their preferred apparel channels.
  - 2017: 22%, 2020: 26%, 2023F: 30%

- **Home & Furniture**: Medium potential that consumers will continue to buy furniture online after they became used to it during their #stayathome time.
  - 2017: 8%, 2020: 11%, 2023F: 13%

- **Electronics**: Medium potential for more first time eCommerce „channel switchers“, as consumers buy electronics necessities during crisis.
  - 2017: 25%, 2020: 30%, 2023F: 35%

- **Health & Beauty**: Medium potential that consumers will continue to buy drugs, beauty and personal care online, once they tried it out during the crisis.
  - 2017: 7%, 2020: 8%, 2023F: 10%

- **Food & Grocery**: High potential that many first time customers of online grocery players will make a habit of ordering online, especially the older population – however, low baseline of % online share.
  - 2017: 1%, 2020: 2%, 2023F: 22%

---

Indicative = Indicative additional online share due to changed buying behavior after Covid-19 crisis

Source: GlobalData, Strategy& analysis
While the crisis task force acts short-term, the management team should think ahead to leverage potential opportunities.

Recovery phases and key objectives

1. **Manage the crisis** (Crisis task force)
   - **Short-term**: Retail lockdown
     - approx. 6–10 weeks
     - Rising daily infections, curfew & restrictions
     - Stores closed
     - Consumers in shock
     - Supply chain disruptions
   - **Mid-term**: Lockdown Removal
     - approx. 6–12 months
     - Slowing daily infections
     - Stores reopen, reduced traffic
     - Covid-19 and recession affects consumer behavior
   - **Long-term**: Retail recovery
     - in approx. 9–12 months+
     - Covid-19 is under control (vaccine, medication)
     - Growth returns, consumers behave differently than before

2. **Leverage opportunities** (Management team)
   - Focus of the following pages

See appendix for details.
Non-food retailers leverage opportunities from COVID-19 across four areas

### Possible key areas for action and exemplary levers

<table>
<thead>
<tr>
<th>Short-term</th>
<th>Mid-term</th>
<th>Long-term</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Rebalance your supply chain and category mgmt.</td>
<td>2. Boost your online presence</td>
<td>3. Ensure organizational fitness</td>
</tr>
<tr>
<td>4. Increase E2E supply chain visibility and resilience</td>
<td>5. Ensure operational fitness</td>
<td>6. Prepare for tomorrow</td>
</tr>
<tr>
<td>7. Leverage opportunities from COVID-19 across four areas</td>
<td>8. Assess the market for M&amp;A or verticalization opportunities</td>
<td>9. Go asset-light</td>
</tr>
</tbody>
</table>

#### General overview – not all levers applicable to all retailers

1. Adjust your **assortment** to become recession-proof
2. Broaden your **supplier base**
3. Increase E2E supply chain visibility and resilience
4. Use **markdowns** and **write-offs** to salvage revenue
5. Leverage store resources for the **online channel**
6. Integrate **remote marketing tactics**
7. Scale your **online shop**
8. Harvest **data** of newly won customer segments
9. Accelerate **cost and cash containment**
10. Re-align organization
11. Implement **continuous cost improvement**
12. Transform operating model
13. Assess the market for **M&A** or **verticalization** opportunities
14. Digitize your **business processes**
15. Go asset-light
Mitigate supply chain and operations risks, rebalance marketing and shift sales to online

Key areas for action: Details (1/2)

**Short-term**

1. **Adjust your assortment to become recession-proof**
   - Cancel holiday and seasonal orders (e.g. swimwear, suitcases), keep home products (BBQ, furniture). Carry low price variants. Make packaging anti-contamination proof.

2. **Broaden your supplier base**
   - Multi source for all critical supplies, incl. EU suppliers where possible as back-up in case supply chain breaks (plus sustainability benefit). Integrate proactive risk management across the supply chain, e.g. identify liquidity risks to your suppliers and take corrective actions.

**Mid-term**

3. **Increase E2E supply chain visibility and resilience**
   - Assess your supply chain and logistical footprint to increase flexibility, resilience and capabilities in the long run and accelerate the role of automation in the supply chain and in stores to facilitate resilience.

4. **Use markdowns and write-offs to salvage revenue**
   - Promote and use markdowns now instead later to avoid excessive revenue decline. Donate proceeds to relief efforts if affordable.

5. **Leverage store resources for the online channel**
   - Ship from stores. Reallocate store staff as online sales assistants (e.g. via social channels) or for eCommerce fulfilment.

6. **Integrate remote marketing tactics**
   - Provide social interaction and gamification. Embed shopping with content und communities. Partner with influencers.

**Long-term**

7. **Scale your online shop**
   - Adapt budgets to address a sustained increased demand for eCommerce, incl. flexible fulfillment capacities.

8. **Harvest data of newly won customer segments**
   - Revitalize customer excellence and review customer data to fully nurture customer base after crisis, incl. increased share of “online-converted” silver ager segment.

---

2) https://www.klaviyo.com/blog/communication-empathy-coronavirus-customer-marketing

---

Strategy&
Accelerate restructuring to enable you to think ahead for your long-term strategy

Key areas for action: Details (2/2)

**Ensure organizational fitness**

- **Accelerate cost and cash containment**
  Consolidate efforts to achieve a leaner organization coming out of the crisis. Assess the location and profitability of your store network and accelerate the potential for store closures.

- **Assess the market for M&A or verticalization opportunities**
  Identify small players as potential M&A candidates while examining opportunities to verticalize your supply chain.

**Prepare for tomorrow**

- **Re-align organization**
  Accelerate automation, GBS, outsourcing etc.

- **Digitize your business processes**
  Ensure flexibility for future crisis-like situations, e.g. ensure infrastructure for home office.

- **Go asset-light**
  Convert your business model to asset-light, where possible (short-term rent obligations, outsourcing, etc.).

- **Transform operating model**
  Overhaul operating model based on differentiating capabilities in order to reorganize for growth.

- **Implement continuous cost improvement**
  Implement processes to ensure a strong focus on controlling costs and expenditures across the organisation – maintain organizational fitness.
We are there to help you capture your opportunities

How we can help

Value Propositions

We focus on five industry-wide distinct Retail & Consumer value propositions:
1. Direct-to-consumer
2. Omni-channel
3. Supply chain & operations strategy
4. Target operating model design
5. Business-led IT transformation

References

We have vast experience in value creation initiatives for leading, global retailers and brands

Retail & Consumer Team

We have a global Retail & Consumer practice with dedicated regional teams. We promise our clients international teams assembled to best meet their needs, foresight backed by in-depth industry knowledge, strong functional capabilities and broad global reach

Thought leadership and publications

We have developed several thought leadership publications, providing valuable insights for our clients

~ 6.900 consultants in retail globally

Strategy&

* Fit for Growth is a registered service mark of PwC Strategy& Inc. in the United States
In case of questions or feedback, do not hesitate to contact us

**Stefan Eikelmann**
Senior Partner

- Phone: +49 211 3890110
- Mobile: +49 170 2238110
- Email: stefan.eikelmann@strategyand.de.pwc.com

**Reinhard Vocke**
Partner

- Phone: +49 211 3890303
- Mobile: +49 172 2022336
- Email: reinhard.vocke@strategyand.de.pwc.com

**Willibald Kofler**
Partner

- Phone: +43 1 51822906
- Mobile: +43 664 5152906
- Email: willibald.kofler@strategyand.at.pwc.com
Thank you
For immediate crisis management support, please refer to the following documents

**Supporting documents (German)**

**COVID-19: Sofortmaßnahmen zur Unternehmensstabilisierung**
Business Recovery Services (BRS)
März 2020

**Reaktion auf die wirtschaftlichen Auswirkungen von COVID-19**
März 2020

**Link:** Business Recovery Services
*Rapid responses for crisis management*

**Link:** COVID-19 crisis management
*Scenario planning, checklists, support options*