

How Consumer industry can manage and recover from COVID-19 (Japan)

Strategy& Japan / R&C Team June, 2020





Where are we now?

- COVID-19 is the most significant challenge in a generation for consumer-facing businesses
- In recent weeks, domestic consumer goods companies and retailers have worked tirelessly to feed the nation and look after staff and consumers
- They must now turn to the future and take actions for mid- to long-term growth even under uncertain situations

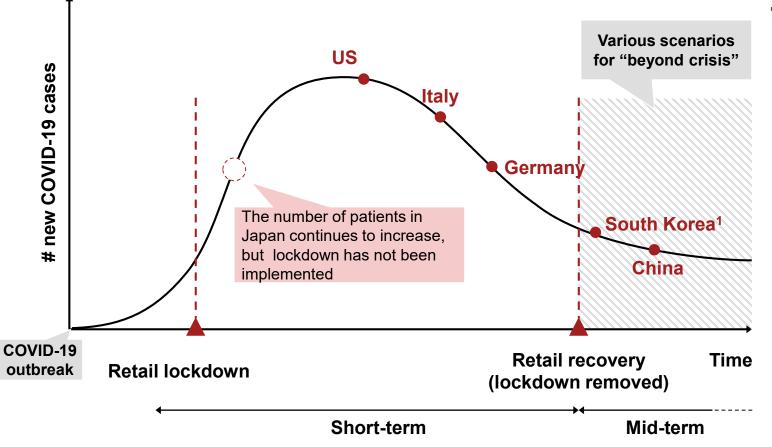


1. The impact of COVID-19 on Consumer and Retail industry

2. How Consumer industry can develop competitive advantages under 'New Normal' in Japan

While Asia is moving towards recovery, the impact of the COVID-19 crisis arrives in European and American retail

Current state of the COVID-19 crisis (as of mid-April)



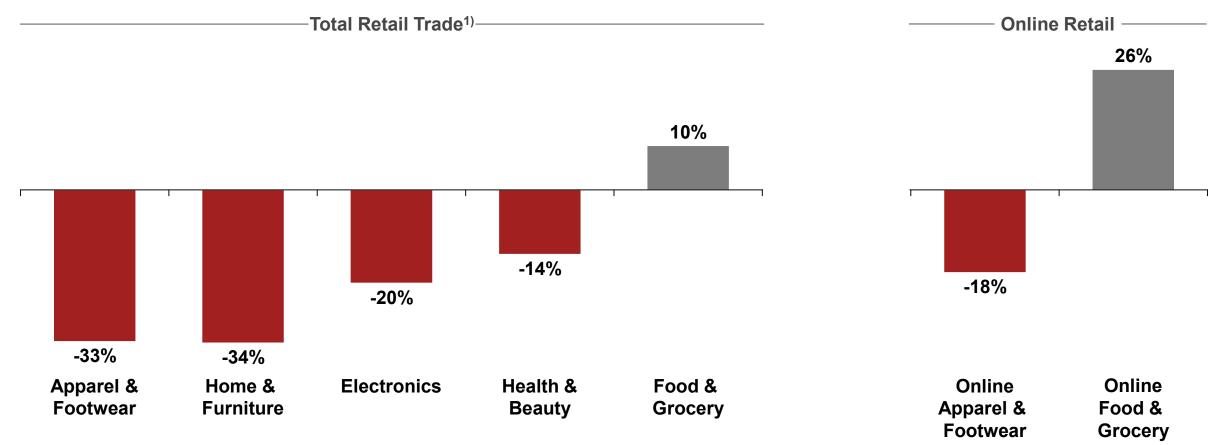
Observations

- Similar patterns in most countries: Rapid exponential growth followed by a slowdown due to effective countermeasures
- Impact for retailers materializes once countermeasures begin
 - European retail sector is still affected, while retailers in China and South Korea move towards normal operations
- Lockdown has not been implemented in Japan, but the number of patients is increasing, Japan retail sector is affected just at the beginning by #stayathome or remote working
- Note that it is necessary to assume the possibility of lockdown again even after the lockdown is released once

In China, increasing of food sales and online shifts are remarkable, while non-commodity goods sales are declining

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

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



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

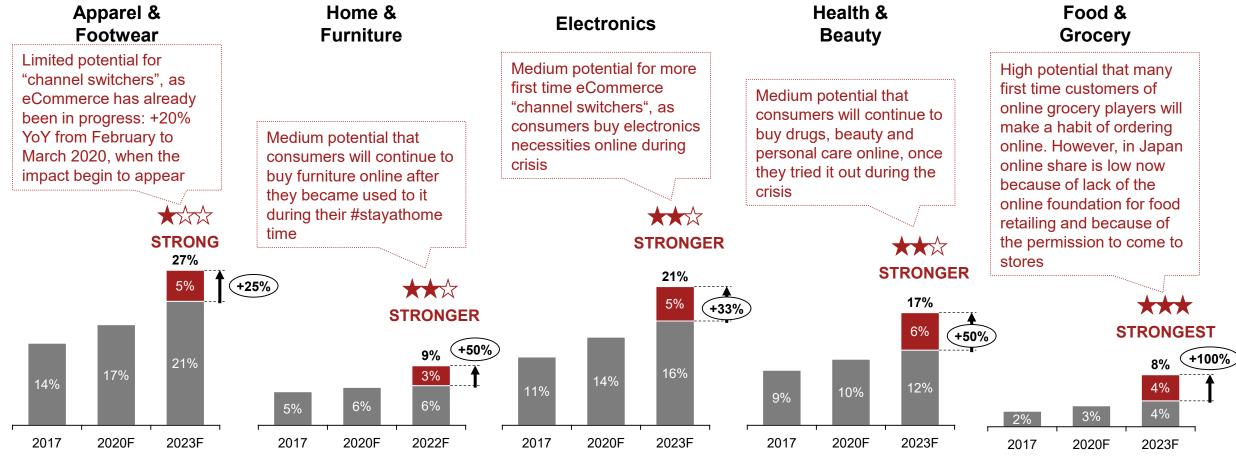
	Apparel & Footwear	Home & Furniture	Electronics	Health & Beauty	Food & Grocery
Mainly Brick and Mortar face sharp sales decline due to lockdown restrictions and/or missing consumer footfall in non-grocery categories	 "Store lockdown" Severe impact, with 70–100% reduction in sales Need for short-term measures to ensure business continuity 				" Grocery panic" → Change in
Omni-Channel struggle with the rapid move towards the online channel and need to ensure eCommerce operations are in "crisis mode"		and/or shift t	shift" consumer demand, to online channel ommerce operations		 demand patterns Risk of supply chain disruptions Need to stabilize operations
eCommerce Pureplay can partly capture lost sales from brick and mortar, but deal with atypical demand patterns (e.g. sanitizer, health products)		in "crisis mo			

ILLUSTRATIVE

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 Japan's E-commerce development

Online share per category, in % of total sales



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

 \bigstar = Evaluation of increase rate against conventional forecast

Source : Euromonitor, Ministry of Economy, Trade and Industry "Market research on electronic commerce", Strategy& analysis



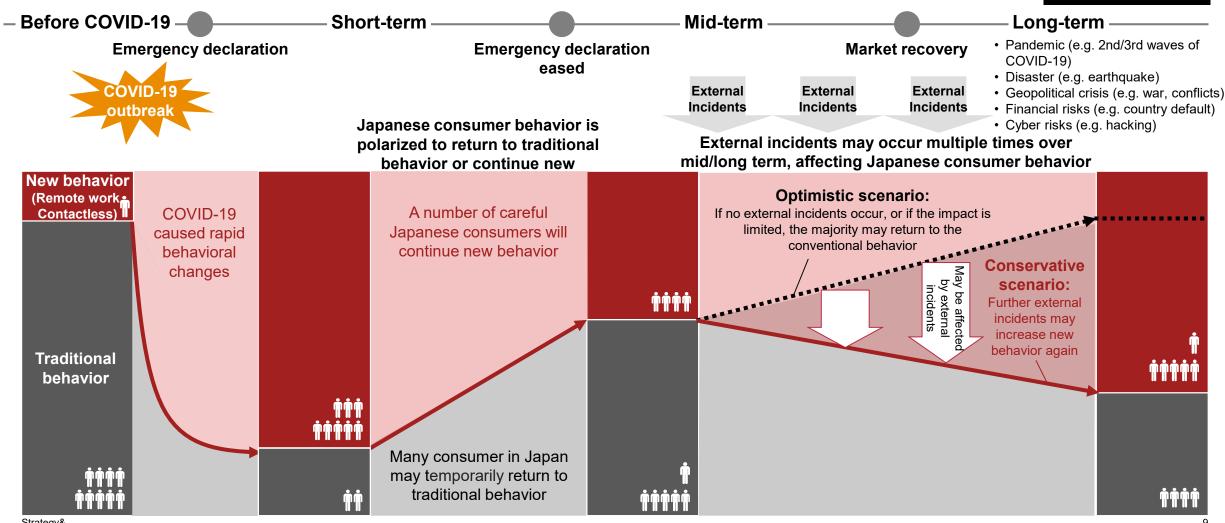
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Management has to be prepared for the scenarios where the impact of COVID-19 is not temporary

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Assumed Scenarios of People's Behavioral Change in Japan



Companies must respond not only to short-term crisis but also to 'New Normal' to establish long-term competitive advantages

Changes in Japanese Consumer and Retail industries and actions to be taken by enterprises

	•	Short-term		Mid-term		Long-term
COVID-19 Phase	Emergency declaration	Approx. 6 to 10 weeks The number of confirmed case increases daily Restriction on leisure activities Supply chains damaged	Emergency declaration eased	Approx. 6 to 12 months The growth in the number of confirmed case slows Store operation resumed with fewer customers	of recovery	Approx. 12 months ~ Vaccination and medicine developed Economic recovery and growth
Changes in industry (Consumer and Retail)	CostPromoSupply chainIndepeConsumerChannDXScatte	Old Normal ote lean cost structure endent channels and players nel-fixed consumption red / small amount of consumer data ally divided and siloed	Irreversible changes remaining after recov	e 2 Supply chain S 3 Consumer C 4 DX II	Strengthen res Shared betwee Cross-channel ntegrated end	Normal silience with leaner structure en players and redundant and focus on consumer -to-end data platform f rapid transformation
Necessary actions for consumer companies	Response to Crisis Build competency under new normal	Manage risks			mprove profitab	ility Build capability Promote transformation

Changes including consumer lifestyles and channel shift may remain for mid- to long-term as 'New Normal'

: Elements of trend

Consumer and Retail industry

Trends in Japanese Consumer and Retail industry

	Short-term trends	Irreversible mid- to long-term trends		New Normal
Operation and Supply	Promote operation in response to emergency Operation • Safety of employees needs to be ensured • Remote work becomes standard • Labor cost is reduced by asking leaves	Resiliency and flexible operation Operation • Store management will be flexible in response to changes in demand • Cost reduction continues to enhance profitability	1 Cost	Built-in resilience Lean business structure to stay profitable even during difficult times
chain	 Cost Labor cost is reduced by asking leaves Increased demand for specific products and lack of inventory in physical channel 	Cost• Fund is secured for necessary investmentSupply chain• Flexible and redundant supply chains optimize distributions, both domestic and overseas	2 Supply chain	Flexible supply chain Supply is shared more between players, with more options of routes
Customer and Revenue	Shift in Channels, Categories, Brands, and PricingChannel• Consumption in living area is increased• Restaurants sales declines with many shutCategory• More consumption is seen in daily productsBrand• Stable supply becomes more importantPricing• Shift from discount price to regular price	More consumer touchpointsChannel• Consumption goes multi-channel• D2C business expandsCategory• Stock of daily products at home becomes normBrand• More touchpoints to consumer enhance brandPricing• Pricing structure is changed	3 Consumer	Consumer-focused Direct relationship with consumer is enhanced
Focus on Data	Increase in transaction dataData CollectionData analytics• Amount of acquired data increases as EC and cashless becomes more common• Usage analysis data such as conventional channel analysis is limited	Analytics as core competencyData CollectionData analytics• Cross-industry data sharing platform will be constructed• Each company will invest in analytical capabilities to draw insights	4 DX	Cross-industry data PF With the development of a shared PF for customer data, use of data is increased
Head Office Functions and Work Force	Mgmt• Crisis response at division-level• Focus on securing working capital• Discontinuation of f2f business deals and promotion/shelf allocation for mainly foods	Flexible and rapid managementMgmt• Change management is introduced moreWork• Efficiency of sales and distribution will be improved through in-house DX	5 Organi- zation	Acceleration of rapid transformation Construction of cross-section initiative to adapt to external changes

Lean organization with data analytics capability gains competitive edge under 'New Normal' of post-COVID-19

Process to reinvent business in post-COVID-19 environment in Japan

	New Normal	Actions to develop competency under New Normal	n of action
Cost	Built-in resilience	Make organization leaner and reinvestment Make it leaner In addition to reducing indirect costs, make organization leaner drastically by reconsidering non-core /unprofitable businesses Reinvestment Investment areas, such as supply chain, consumer data analytics and D2C, redefined to focus on (FFG; Fit For Growth)	Improve profitability
2 Supply chain	Flexible supply chain	Enhance flexibility and redundancy in supply chain Be flexible For cross-industry inventory management and joint delivery, integrate management of multi-layer distribution network Be redundant Strengthen supply chain network, secure excess inventory as a buffer, and maintain inventory flexibility between channels	Utilizing supply and demand data across channels
Consumer	Consumer-focused	Strengthen analytical capabilities to understand individual consumers Data acquisition Promote acquiring / sharing individual purchasing data (e.g. ID-POS, credit card payment data, etc.) across channels / industries Analysis capability Many players as well as major EC such as Rakuten need to reflect changes of consumer behavior to pricing D2C or production	Acquisition and analysis of consume data
DX	Cross-industry data PF	Promote digital transformation in sales and supply chain based on consumer data Digitize sales Reconsider F2F business practice with reporting based on consumer characteristics and online collaboration with customers Digitize supply chain Improve accuracy of demand forecasting with consumption data, and use it to manage production, distribution and inventory	Utilizing personal characteristi data
Organi- zation	Acceleration of rapid transformation	Accelerate transformation and cultivate mind for changes Lead for changes Accelerate conversion to flexible and rapid management across department Adapt to changes Cultivate culture accepting diversity of people and work styles and promoting changes based on the effectiveness on the ground	Promote trans- formation

Need to develop business transformation focused on consumer for rapid changes

- Consumer and Retail industries in Japan have been improved the value proposition based on lifestyle or needs of conventional Japanese consumer. Also, some companies have leveraged business in Japan to expand overseas
- Now, rapid changes caused by COVID-19 may irreversibly remain for mid- to long-term as 'New Normal', so that companies should prepare for drastic changes under the uncertain future
- In particular, Consumer industry should focus on changes of Japanese consumer attitudes and shopping behaviors, and redefine relationship with them or value proposition. Then, they should see where to invest to drive profitable growth, where to reallocate costs and how to develop innovation
- Strategy& have been supporting our customers in Japan by leveraging our many years of experience in Consumer and Retail industry and our global network. We will set up a discussion about the action priority and the execution plan adjusting to your business, so please feel free to contact us

PwC Consulting Strategy& / R&C team

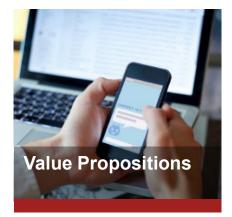
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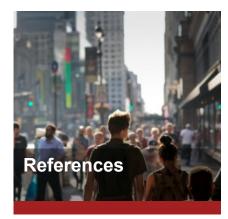
We are there to help you capture your opportunities

How we can help



We focus on five industrywide 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



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

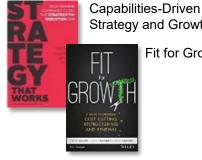


We have a global Retail & Consumer practice with dedicated regional teams. We promise our clients international teams assembled to best meet their needs, foresight backed by in-depth industry knowledge, strong functional capabilities and broad global reach



Thought leadership and publications

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



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