Understanding the sector impact of COVID-19
Non-Food Retail

With stores shuttered and millions of associates sidelined, a tough reality has set in for the vast majority who depend on foot fall to drive revenue. Disruptions in Inventory, supply chain, and merchandising will require an infusion of product, capital and customers to rebound. However, retail is a notoriously resilient industry, and leaders can act now to bolster brand loyalty, minimize downside exposure, and kick start innovation to recover and thrive when business reopens.

**Practical next steps**

Leaders will be defined by what they do along the three dimensions to managing a crisis: **Respond**, **Recover**, and **Thrive**. Some key next steps include:

- Establish a crisis response team with clear decision making rights on critical questions (i.e. store reopenings, workforce policies, etc.)
- Optimize working capital and identify measures to deliver rapid, tangible cash flow benefits
- Evaluate Tier 1 and Tier 2 suppliers and potential for supply chain disruptions across categories

**Key questions executives and boards should be asking**

- What does our **business resumption** plan look like: merchandising, stores, people and supply chain implications?
- How are we **connecting** with customers during the crisis through social and digital to earn loyalty? Have we reviewed our media placements and messaging to ensure we are sensitive to our customers, partners and associates in this time?
- What is our workforce **strategy** to ensure safety, open communication, and retention of associates? How are we continuing to connect with a sidelined workforce?
- What is our **inventory** position and clear-out strategy? What changes should we make to merchandising plans? Can we use this time and available data to analyze our roll-out strategy? Are we prepared to open dozens or hundreds of **stores** simultaneously?
- Are there strategic **partnerships** and/or **acquisition** opportunities to enhance competitive positioning and business **resiliency**? How do we best manage working capital and ensure access to cash in a prolonged period of disruption?
- What are the anticipated **implications** for regulatory, tax, or financial reporting?
Potential long-term impact on retail sector

• **Increased Popularity of New Formats:** With in-store shopping no longer an option, retailers and customers have innovated where possible. This represents a huge behavior shift and opportunity with many customers taking advantage of in-store pick-up, AI assisted shopping and local delivery for the first time. The popularity of these models will persist, particularly with those older customers who were hesitant to embrace digital native behaviors previously. More than ever before, customers will expect a seamless omni-channel experience with new shopping and delivery options that affect margins.

• **Supply Chain Flexibility:** Many retailers are struggling with delayed shipments and missed delivery windows for online orders. Tension in the supply chain is likely to linger as retailers are reliant on sourcing products from Asian countries, and as quarantine restrictions impact distribution centers and transportation lines. In a post-crisis world, a flexible supply chain may be more important than a low-cost supply chain, leading to a rise in onshoring or near-shoring.

• **Importance of Digital Marketing & Promotions:** Digital strategies will be critical post-crisis, to both communicate with customers as stores reopen and to re-establish pre-crisis behavior and loyalty. As brands look to rebuild their marketplace footing, social influencers and marketing will play a key role. In addition, heavy discounting and promotional activity are likely to persist to drive both in-store and online traffic to reduce and turn inventories.

• **Demand Spikes and Preference Shifts:** With many customers delaying non-essential purchases, demand in the coming months may ramp-up following prolonged self-isolation. We anticipate a burst of discretionary spending on big ticket items such as consumer appliances or furniture. Longer term, pre-crisis habits will eventually return but some new preferences may persist, such as a trend toward casual/comfort and personal-care products that boast efficacy and safety.

• **Data Capture, Analytics, and Technology** - The real-time information that can be gathered from customer data during the crisis and post-crisis will provide valuable insights. Never before have data and early insights into customer trends and psyche been more important. As stores reopen, data driven insights will be key in smart operational decisions and future pandemic planning.

• **Acceleration of M&A and Restructuring:** Those companies with high debt-burdens pre-crisis will find this a difficult storm to weather. Even those with stronger cash positions will face profitability challenges with decreased demand and high levels of unsold-inventory. While some retailers may shudder, this reshuffling will provide opportunities for innovation, strategic partnerships and acquisitions.

• **Navigating Regulatory, Tax, and Financial Reporting** – Retailers must carefully consider their unique circumstances related to conditions that may result from the outbreak of COVID-19. Each company may face a variety of regulatory, tax, accounting, reporting, and internal control challenges and opportunities.

**Contact:**

**Evan Sheehan**
Global Retail, Wholesale & Distribution Leader

+1617-529-3170

esheehan@Deloitte.com