



Understanding the impact of COVID-19 Non-Food Retail

Although gradually reopening, some retailers are still struggling to draw consumers back to physical stores. Many of them have been closed for months and some may never reopen. Retailers that have embraced ecommerce and other technologies to create a seamless digital and no-contact shopping experience have emerged as go-to choices. For long-term success, retailers will need to continue to evolve as consumer preferences will be permanently impacted by the COVID experience.

Practical next steps:

Many retailers globally are still at a *Recover* phase, while others are ready to rethink their strategies to *Thrive*. Some key next steps include:

- Sustain workforce to ensure rapid and impactful decisions, sustain the organization to create value for all stakeholders, and sustain society as it experiences multiple existential threats
- Realign people operations to the most pressing business and workforce priorities
- Leverage the experiences of the COVID-19 response and the opportunities for future growth

Key questions executives and boards should be asking:

- How are we connecting with customers through the crisis using social and digital media 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 digital and social media strategy? Are we engaging with our consumers based on the latest trends in social media?
- What is our inventory position and clear-out strategy? What changes should we make to merchandizing plans? Can we use this time and available data to analyze our roll-out strategy? Are we prepared to provide discounts or rethink our portfolio offerings?
- Do we need to rethink our store reopening strategies? Are there any stores that are no longer profitable and should we be diverting our investments? How do we best manage working capital and ensure access to cash during a prolonged period of disruption?

Potential long-term impact on retail sector:

- **Permanent shift to online and ecommerce growth:** As a result of the pandemic, consumers that purchased items online during the lockdown and the period after are likely to permanently shift toward buying online. Many retailers, including the luxury players, have ventured into online retail to turn out their inventories in order to capture the growth opportunity. Retailers that have been able to leverage this opportunity with a “digital first” approach to increase their e-commerce investments are likely to recover faster than department stores or retailers who have relied on a brick-and-mortar store concept even as an integrated ecommerce model gained more traction.

Potential long-term impact on retail sector (continued):

- **Safety concerns fueling the “contactless’ concept”:** The post-lockdown period has led to retailers shutting their merchandise trials and limiting consumer entry in-store to avoid spreading the virus. Contactless shopping in non-grocery retail has led to adoption of 3D, AI, AR, and VR to launch concepts like virtual malls and stores, virtual shopping assistance, and click-and-collect options. Such efforts to maintain consumer touch points and enhancing consumers’ digital buying experience is expected to be a benefit in the long term when consumers resume buying in-store.
- **Social media to play a crucial role:** We have seen how brands have tried to engage their consumers during the lockdown through social media marketing. The role of social media has evolved as a primary touchpoint, where more consumers hear or read about emerging events through it than from any other source. With this, the emergence of social media shops is going to pick up the pace and become a new norm as brands have now started associating their products with viral content online, launching their own Instagram and Facebook shops, or associating with a retailer that helps to onboard them with technical and operational support for social media purchases.
- **Importance of off-price and affordable luxury:** As stores have started reopening, retailers are focused on heavy discounting and promotional activity to drive both in-store and online traffic to reduce and turn inventories and tap into “revenge consumer spending.” As it may take more than a year for economies to recover from the recession, consumers are expected to be mindful of their spending, especially on luxury aspects. Newer concepts like affordable luxury will emerge even faster than anticipated along with a rise in brands adopting an off-price model. High real-estate costs, little to-no profit margin recoveries even after the pandemic, and changing demand from Gen-Z consumers toward sustainable fashion will also contribute.
- **Corporate honesty, integrity, and responsibility:** The lockdown has forced many brands and retailers to break contracts, end partnerships, cancel orders, and shut their stores, leading to supply chain disruption. Many suppliers have been at the forefront, taking a massive hit and struggling to offer decent wages to their workers. Additionally, consumers are increasingly understanding the positive impact of ethical fashion, while they are also ready to push the industry toward a circular economy. Since the current demand has slowed down, and it may take many years to revive, retailers and brands can leverage this time to recontextualize and strategize to align with consumers’ expectations on sustainability and ethical practices for a long lasting impact.
- **Mass bankruptcies and permanent store closures:** After economies have reopened, fear of the virus increasing has led many consumers to restrict their store visits closer to home rather than travelling far for their purchases. For many retailers across regions, government support is coming to an end and short-term investor inputs have not been of much help, which will further intensify the financial stress to open stores and will lead to permanent store closures by 2021.

For additional steps that companies should consider taking, visit www.deloitte.com/covid

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