

THAT MAKES CENTS



Retail's grand reopening

Host: Bobby Stephens, principal, Deloitte Consulting LLP

Guest: Jean-Emmanuel Biondi, principal, Deloitte Consulting LLP

Bobby Stephens: Hello, everyone. Welcome back to That Makes Cents, the podcast that gets real about the consumer industry. So we are recording this as we near the end of May in 2020. If you're following along, we have started to sprinkle in some quick takes on COVID-19's impact from several consumer angles. Today, we are here to talk about the very important, though ever-evolving, retail store. Over the past few weeks, stores across the US are beginning to reopen as about a dozen states now are lifting their stay-at-home orders. But both from the consumer and the retailer perspective, you can't help but wonder what's going to be different the next time you step into a store.

Joining me today is someone who has spent a long career in retail, both in Europe and here in the US. Recently, he's really leaned in to develop a comprehensive point of view around store reopenings in the face of COVID-19. So welcome to my colleague

at Deloitte Consulting that I've known for nearly 15 years, Jean-Emmanuel Biondi, or as many know him, Jeb. Jeb, thank you so much for your time today.

Jean-Emmanuel Biondi (Jeb): Hey, Bobby, hope you're well. It is really good to talk to you today, and I hope I will see you very soon.

Bobby: Absolutely, Jeb. Hope I get to see you again soon, too. I also want to quickly mention that everything we'll be talking about today is pulled from a larger playbook on store reopenings that Jeb and team authored. You can find that playbook on deloitte.com by searching "reopening stores." So okay, plug over. Let's dive in. Jeb, when you first approached this topic and started building out the strategy for retailers, where did you start?

Jeb: We started to work on this playbook as soon as the crisis hit, and we saw a lot of

retailers and our retail clients focus on the immediate response to provide to the crisis. What we decided is to take a longer view that would help us understand how retailers will emerge from the crisis itself and how they can think about reopening.

Retailers have an incredible track record of successfully opening stores, but this is just different. What we did is to say, "Let's go and focus on the creation of a playbook that retailers can refer to." Today, obviously, all of the retailers who are reopening have their own playbook. What we did on our side is, really, we leveraged the Deloitte network. What I mean by network is in multiple ways.

First of all, there's a geographical network. Our colleagues in Asia and China, in particular, and beyond, just went through a similar crisis and reopened before we did. So we pulled in our Chinese colleagues to understand some of the observations and experience that they had been through. We

also leveraged all of our functional expertise that we have within Deloitte. We pulled in . . . We talk about that our supply chain experts, our stores experts, our human capital experts in merchandising. There's so many implications from a reopening standpoint.

The point of view in the playbook that we have developed is a reflection of the entire network that we have brought together. We've, of course, had multiple discussions with our clients as well. What I mean by clients is not just retailers, but also mall operators, who have been largely affected by the crisis. So that's a little bit of the context, Bobby, that I thought would be useful to understand how we started and where we started.

The playbook that we created is centered around three major components. The first one is around the customer demand and, again, the assumption that we made is that customer demand after the crisis, as states and stores reopen, will be different than what it was before, pre-COVID, both quantitatively and qualitatively. So we had to better understand the customer demand and develop some assumptions, and assumptions determine what the impact of that new demand would be both in terms of financial plans and forecast, but also from an operation standpoint. What is the demand from the customer?

The second aspect of the playbook is around operations, and we made the assumption that the crisis will require that retailers reshape the heart of the business, not just the stores, but some of the key elements of the stores beyond that, whether it's merchandising, supply chain, as I mentioned, customer engagement. You're going to have to rethink about the operations.

The third aspect, which was important to us, is to say you have to mobilize the organization to action. Being unprecedented, there might be things, however, that you can take from past experience around large transformation programs—thinking of like an M&A program that has a day one—but can we glean insights and experience from

other large transformation efforts that retailers and clients at Deloitte have been through to think about how you mobilize an organization for such an unprecedented effort? So that's a bit of, Bobby, to your questions, both the context and how we thought about the key elements of the playbook that we built.

Bobby: Got it, got it. It sounds like it was both a heavily global and a heavily cross-functional effort, so probably nice to have the nice French accent, or the international diplomatic language that French has been, to bridge those gaps. That's nice, but jokes aside, let's start with the first point: consumer demand. What do we know so far about understanding consumer demand in the face of COVID? And how might we be able to glean insights more quickly around the consumer?

Jeb: Sure. What we know—and by the way, we're seeing happening—is that the customer values and behaviors are changing compared to what it was pre-COVID. There are different elements of the behaviors that have changed.

The first one is around demographics. A couple of examples: The younger customers are much more confident to return than older age segments. That's one example. We're finding, and we're assuming, then, at that point of time, that rural customers or suburban customers will be more confident returning than those living in cities and urban ones. So you have geographic and demographic variations around demand, but in very different behaviors from that standpoint. The second element is really around financial means. I believe that we had, last week, unfortunately, another three-and-a-half million people who have been declared as unemployed, so there's an increasing segment of the population that has limited financial means. So that is impacting, also, the demand as a whole.

But beyond those quantitative aspects, the mindset and the core values of the customers are also changing, so clearly safety is at the top of the list of things that matter. We see more emphasis also on trust towards the brands that have responded



well and during the crisis have showed some empathy, by the way. And there is like a different level of trust with some of the brands that consumers have engaged traditionally with.

The other aspect I think is important, Bobby, is that some may be short-term and others could be more structural and longer-term. We had some similar assumptions in 2008, thinking that, during the Great Recession, you would find fundamental changes in customers' behaviors, and we even discussed the end of consumerism. And I don't think it has been the case. I think our economy was booming, and consumers were buying all the way pre-COVID. This seems slightly different though, and some of the changes that I just described could be more structural around frame of mind and core values. So this is important for the retail clients to really understand and understand how you respond to those changes in values and behaviors overall.

Bobby: Mm-hmm.

Jeb: What I think is also important is to realize that customers today are much more focused on the friction that exists in the store and how retailers are going to address those frictions. So, traditionally, we have listed friction as a factor of time spent in a store. Convenience is being redefined. I think today, friction is not just time and convenience, but also contacts, and safety from a customer standpoint means that our retailers have to prove that they are doing everything they can to eliminate that friction, reducing time spent in the store, improving

That Makes Cents | Season 1: Episode 7

the convenience aspect, but also eliminating contacts in the store to ensure safety. And as you redefine friction, you also redefine the journey that the customers go through from a shopping standpoint and the role that the store is playing along that customer journey. So this is where we believe you're going to see fundamental changes in how a customer engages with a store, preparing the shopping trip, using digital tools, digital solutions, mobile apps, preparing minimizing contacts, using curbside pickup, as we see it, using contactless payments. I think we're going to see a completely different way of engaging in the store. And it affects the operations that retailers have in their own stores.

But as I said, a different set of values, a different behavior from a shopping journey standpoint, and a different role for the stores—these are things that are very important for retailers to incorporate in their thinking as they reopen and really monitor. But what is tricky about it is that you cannot rely on the previous data sets to evaluate the market conditions and really plan your business.

So what you have to do is to find ways to take a pulse of the consumer from the movement, from a behavior standpoint, from a sentiment standpoint, to really understand that or identify the data that is going to be relevant for the next period of time. And we're talking about potentially several seasons here.

Bobby: Yep.

Jeb: And you're going to have to rely on another data set and look at the data at a very granular level, because those behaviors could be very different from location to location. You're going to have to look at this data to augment what you have internally and bring an outside-in perspective, and you're going to have to look at it on a week-by-week basis, because those changes are happening right now. And the evolution is almost immediate and instant.

Bobby: So, I mean, with all the variables at play you mentioned—economic things, unemployment, stores being closed, people

working from home, demographics, and sort of locational differences—lots of variables, lots of different permutations, and the fact that consumer demands and sentiment is actually sort of changing every week, which is . . . Maybe it was happening before, but it was certainly was not as acute as it is now. So I liked that you threw in the notion of the different data sets, combining internal and external. And I'd love to talk more about that, but it sounds like it's kind of an episode of its own.

So let's move on to the second point in this sort of framework, and you actually hit on this a little bit in your answer. And I think it's impossible to decouple these things, because they are related. Reshaping operations, high-level, what does that entail? What do we mean in terms of reshaping operations for a retailer as they reopen their stores?

Jeb: The way we looked at it, where we said on the basis of new customer behaviors and needs and expectations, you have to rethink the core business areas for reopening. And the assumption is that you're going to need a new set, or updated, I would say, business processes and standard operating procedures in order to minimize friction, protect your guests—but not just the guests, by the way, Bobby, but also the store associates. And, I mean, we're concerned about their own wellness and safety and health and wellness.

It's also new processes on how to reengage with the customers and build that trust. There's a trust element that is so important tomorrow for the customers to go back to the stores. And finally, maximize the business opportunities. I mean, retailers are trying to run businesses, and hopefully in the most profitable fashion.

Bobby: Mm-hmm.

Jeb: So how do you take advantage of that to maximize conversion and make sure that you build a loyal base of customers who want to feel confident to return? So what we thought about is breaking down the core business areas or the heart of the business in six areas. There will be some obvious

ones here, Bobby, but the first one is around store operations. You're going to have to rethink operations, and you will have to think about how you accelerate the adoption of omnichannel, not just by the stores, but also by the customers. And you offer multiple paths, so to speak, you know?

And not just to buy online and pick up in-store, but ship from. Free ship from store, that's another omnichannel path that has a lot of attention today. It's also curbside pickup, which is accelerating. It's also returns. I mean, imagine you have stores that have been closed for more than eight to 10 weeks and suddenly reopen, and customers have continued to buy online. You're going to have to manage returns for a while, and it's going to be a different process than it used to be.

So, I can continue—fitting rooms, traffic management in the stores—but store operations are a big area that you have to rethink in terms of processes.

The second one is visual merchandising and store layout. A lot of retailers are trying to reduce the clutter, facilitate traffic in the stores, while presenting some of their core items. So how do you maximize visual merchandising? How do you organize your layout to take advantage of the traffic you have in your store, but also give a sense of safety?

The third element is just about the store associates and HR. Think about . . . I mentioned a fact earlier, it's massive. And you have to prepare for the reentry of the workforce. You have to make sure that your leadership is prepared. You have to make sure that your staff is trained, that your staff is protected. There's a number of processes, new or updated, that need to be taken into consideration.

The fourth element is really more focused on the customer to make sure that you build that trust that I mentioned earlier. How do you want to treat your most loyal customers, by the way? Will you have separate windows of time where they can shop quietly? Will you reward them for shopping in the store? Will they have specific appointments by which

That Makes Cents | Season 1: Episode 7

they can shop in the stores? There's a way to engage with a customer and give them the sentiment that they're safe in the store and that they can trust their retail brand, that they can engage safely. That's what this is about.

The two other ones are more focused on the product itself. Many stores shut down, and you have inventory from the previous season. You have inventory from the current season, and you have, soon, inventory for the fall coming up. So you're going to have to manage the entire inventory overall that you have in the pipeline, not just in the stores, but in the DC. It has implications on liquidations. It has implications on allocation replenishment. The whole supply chain aspect needs to be addressed in a way that allow retailers to make the best use of this inventory while recognizing that you've got different seasons coexisting at the same time.

And the last element is around merchandising and pricing. First, trends in the market tend to show that consumers are going back to the basics. Obviously, consumption has been reduced, but also, the spend is different than it used to be across the different categories. You have to think about how you're going to organize your assortment in the stores, highlight key items, and make sure that you organize clearance, make sure that you put in the front the categories that matter most for the customers. There's going to be incredible vastness of supply from a merchandising standpoint, whereas there used to be demand that existed, and we're going to go through a period of liquidation. All of this needs to be managed. You need to have the proper procedures in place to allow for the stores to run the liquidation and the markdown efforts as well.

So these are the six areas that we broke down and where we organized, basically, our efforts from an operation standpoint, thinking about the playbook and what needs to be addressed.

Bobby: Yeah, that's really helpful. I mean, I think it, rightfully so, is a pretty thick playbook, right? Across different functions,

different people, right? Consumers, the associates, folks at headquarters, folks at the DC, regional and district-level leadership, all will have to likely reshape what they do in some way, shape, or form. And that's a lot, but, you know, there's really a time crunch here.

A window is sort of opening up, and there's this weird thing where we almost need to thread a needle. Opening too soon and not right is a bit of a risk. Waiting too long to open to get it super perfect is probably a risk as well, because you probably miss demand and the opportunity to welcome people back to things and rituals that they like in their daily life. Before we close up, how do we connect the gap between all of the things you could be doing and a few of the changes you need to mobilize to action very quickly?

Jeb: A couple of things. First of all, you need to prepare not for one opening, but multiple openings. It's on a state-by-state basis where we see things reopening or we see stores reopening, and the rules are different, by the way. There's not a lot of consistency, necessarily, across all of the states—certainly not across all the markets, if you're a global retailer. So you have to prepare for multiple day ones, not just one.

The second thing that I think is important is that you align your organization on what I would call the minimum viable stores. What is the minimum you need to be able to open the stores? And that means you may have to make some decisions and sacrifice some parts of the business, whether they are departments that you don't want to go open right away because you're not comfortable, you don't think that you can ensure safety of the consumers, or it's too difficult to manage.

A lot of questions around fitting rooms or testing of the products—beauty areas, as an example. But what is the minimum viable store? What does it look like? And be prepared for that. And align the organization that everybody accepts. That's what you have to go with.

The third element that I think is important

is that you establish a nerve center that will really operate as the decision arm, being able to capture information. And you need to think about all of the KPIs that you need to have in place to understand how stores are reopening, how well they are reopening. Capture the information, analyze the information, disseminate the information, and make decisions, obviously. And that nerve center needs to be fully supported by the leadership to make sure that they're behind them when key decisions and tough decisions have to be made.

The one thing that . . . And you talked about field operations earlier and store managers. I think there's one thing that we introduce in our playbook—and we've had multiple discussions with retailers sensitive to this topic—is the whole notion of decision rights. A lot of retailers have a relatively centralized model where key decisions across all of the heart of the business are being made centrally.

There's a question here whether, for a moment of time, and obviously temporarily, we should give more decision rights to the field operations, who are the store managers, so we can adapt to the local conditions. One of the things we haven't talked about, and that we're actually looking at very carefully, is the whole notion of a competitive market and the competition at the local level.

If many stores have closed, where has the demand gone for a long time? Obviously, some of it has gone digital, but you may see some nontraditional retailers may have captured that part of the demand, such as mass merchants who have stayed open, or wholesale clubs.

Understanding your competition, knowing that some retailers may not open their stores right away, is important as well. So this is why rethinking decision rights for a period of time may be necessary, and you give more power of decisions to your store managers so they can adapt locally. And if not, how do they bring back key issues and decisions that are being made centrally with their support? That's what you need to think about. There's a lot of unknown

That Makes Cents | Season 1: Episode 7

in the market. You have unexpected situations, store associates pushing back on some of those processes that you want to have in place. Store associates not feeling comfortable or vice versa. Customers who are not willing to follow some of the rules that you want to put in place. That's the unexpected, and that you have to adapt to. You need to make sure that you have the structure in place to respond to the unknown and the unexpected.

By the way, also develop a personal relationship. That's the kind of priorities and things that may not have been on the top of the priority list, either businesswise or technology-wise, and suddenly become much more important as you maintain that relationship and that trust with your customers. These are a few things that we're encouraging and recommending to our clients.

Bobby: I mean, a lot to think about there. As we wrap up, I just want to replay a couple of things. One is, I like the idea of a minimum

viable store. I like the idea of thinking about maybe adjusting decision rights for a temporary period of time, such that you can react quickly. It almost is like we need to have a plan, but we need to have the measurement in place and the structure in place to be able to change that plan very quickly as we move forward, and that seems vitally important.

Also, it seems we're reopening, but might also need to think about what happens if there is a resurgence of the virus and stay-at-home orders in the fall. So it's sort of a unique goal of opening stores up as quickly as possible to begin the process to rebuild the business, while incorporating along the way, new yet sort-of-known risks, but not exactly how those risks are going to play out and how they might disrupt the next, as you mentioned, couple of seasons.

I think there's just a ton of good stuff to think about, Jeb. Going forward, we likely will learn more as data comes in, as stores began to open up, and we'd love to chat

again, but I think that probably does it for today's quick take on "Retail's grand reopening." Thanks to Jean-Emmanuel for sharing a sharp perspective.

Jeb: Thanks for having me, Bobby.

Bobby: And thanks to all of you for listening.

If you do want more information, as I mentioned, you can find it on deloitte.com, and I teased it earlier, but on our next episode, we will be talking more specifically about consumer sentiment and other sources of consumer data that might be available to help us navigate this crisis in the days ahead. I hope you'll join me again on That Makes Cents. Take care and be well.

You can listen on your favorite podcatcher, whether it be Apple Podcasts, Stitcher, or Spotify. Simply search for That Makes Cents. Connect with me on social media: Bobby Stephens on LinkedIn or @bobbystephens on Twitter.

Learn more



Visit the That Makes Cents library:
www.deloitte.com/us/that-makes-cents



Join the conversation on Twitter
[@DeloitteCB](https://twitter.com/DeloitteCB)

This podcast contains general information only and Deloitte is not, by means of this podcast, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This podcast is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte shall not be responsible for any loss sustained by any person who relies on this podcast.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. In the United States, Deloitte refers to one or more of the US member firms of DTTL, their related entities that operate using the "Deloitte" name in the United States, and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see www.deloitte.com/about to learn more about our global network of member firms.