



Defending Retail against the Coronavirus

Companies can brace themselves for lasting changes to the sector even as they grapple with short-term disruption.

By Marc-André Kamel and Joëlle de Montgolfier

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At a Glance

- ▶ We've put together an operational checklist to help retailers frame their immediate response to the COVID-19 pandemic and their medium-term planning for an eventual recovery.
- ▶ Key actions include empowering your emergency response team, putting store operations and online fulfillment into crisis mode, optimizing supply and logistics, saving cash, communicating and collaborating.
- ▶ The crisis is a defining leadership moment for retailers. Above all, the safety of customers and employees will remain paramount.

For many retailers around the world, the COVID-19 outbreak is now a reality rather than a looming threat. Having watched Chinese retailers striving to meet the needs of both their workers and their customers in the early stages of what has become a pandemic, executives in a host of countries find themselves stepping up to the same challenge. South Korea, Japan, Australia, Italy, France, the US, the UK—the list grows.

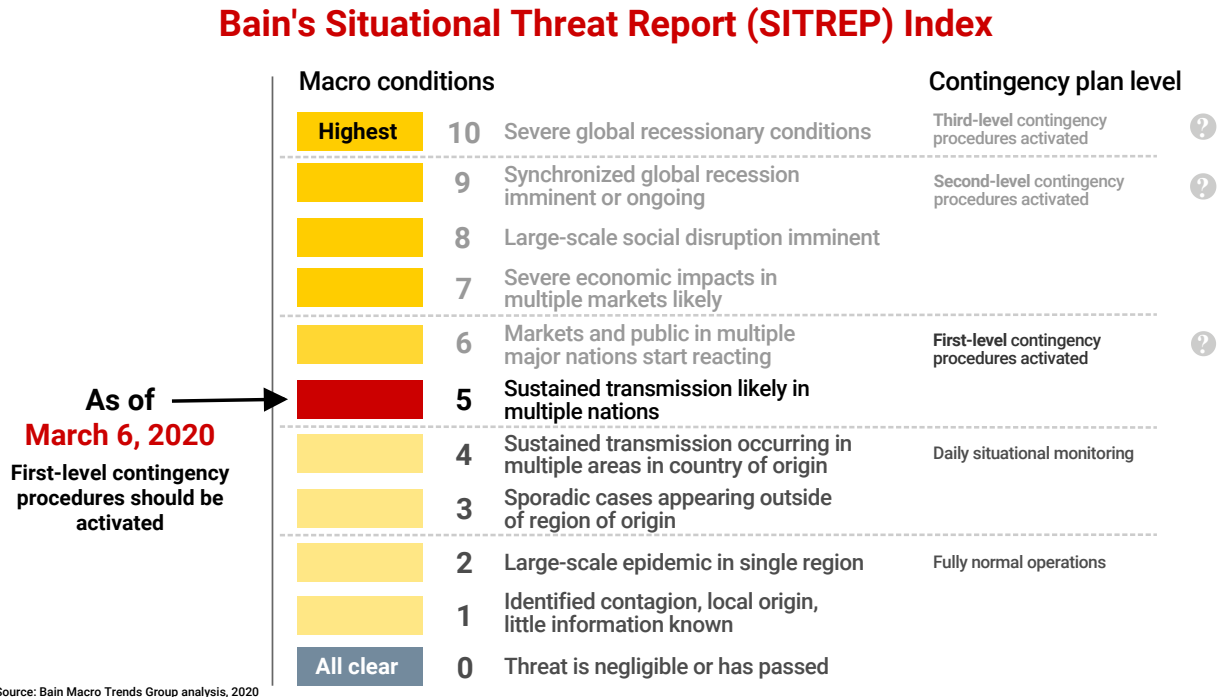
Bain & Company's Situational Threat Report Index, which combines official data with our own modeling, is continuing to evaluate the coronavirus's effect on global business, grading it from 0 (a negligible threat) to 10 (severe global recessionary conditions). As of March 6, the index stood at 5, with sustained transmission of the virus likely in multiple nations (*see Figure 1*).

At that level of threat, leadership teams should be focused on activating first-level contingency procedures, such as mitigating health threats to their workers, restricting nonessential travel to avoid stranding employees in quarantine, reviewing and even deferring nonstrategic investments, and planning for a three-month recession.

Few businesses could hope to predict the course of the pandemic with any accuracy. However, retailers do have the power to quickly develop and roll out contingency plans to address the crisis head-on and ensure business continuity, while playing their role in minimizing the virus's spread. We've put together the following operational checklist to help with that task.

The challenge will vary by sector. In the grocery sector, for instance, many chains already have to cope with a surge of traffic at both physical and online stores, as customers stockpile and panic-buy. Scaling up online operations to serve that demand is likely to be particularly hard, given the difficulty of rapidly finding enough personnel with the right skills. Meanwhile, the concept of the shopping journey in physical stores is taking on a new meaning and importance, given the potential for transmitting the virus at each interaction.

Figure 1: Evaluating the effect of coronavirus on global business



In most other segments, the outbreak will probably reduce traffic and revenue. Retailers of all types must be prepared to act quickly to mitigate the impact of such turbulence, while also learning from the experience of their counterparts in China and other hard-hit countries. And even as they strain every sinew to address short-term disruption, retail executives also need to begin medium-term planning for an eventual recovery.

Lessons from China

Bain's leading position in China's retail and consumer products industries enabled us to move quickly to assess the impact on retailers as the situation unfolded there. We've identified several local features of the crisis that are likely to affect retailers in other countries as the virus spreads globally.

The impact in China varied by **retail subsector**. Grocers experienced waves of stockpiling and panic-buying of daily essentials. Restaurants suffered a rapid slowdown as social-distancing measures to minimize the risk from human contact were implemented; demand for contactless delivery methods surged at the minority of establishments that remained open. Sales also plummeted in discretionary categories such as apparel and luxury, as consumers avoided shopping malls and other key commercial centers.

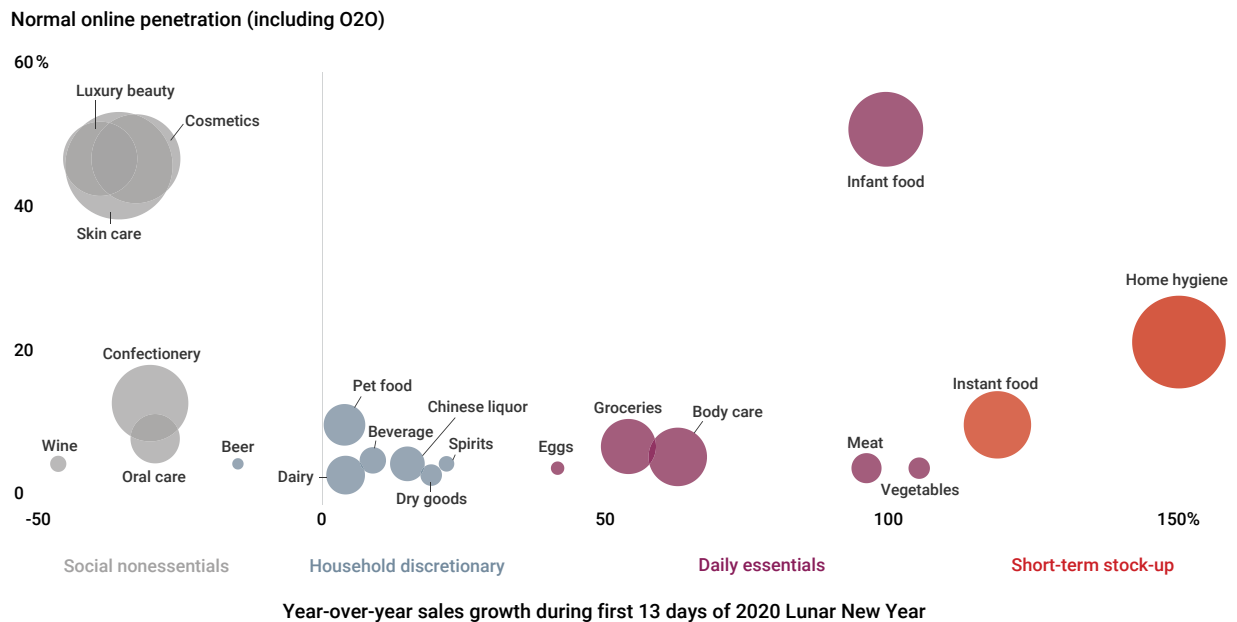
Defending Retail against the Coronavirus

The impact also varied by **consumption category**, as analyzed in detail in the Bain Brief “China’s Consumer Industry Prepares for the Coronavirus Legacy.” Consumers hoarded necessities and key pantry and household items, such as disease-prevention products and packaged, shelf-stable food, while reducing consumption of nonessentials, such as beauty products, apparel, electronic items and luxury goods (see Figure 2). Luxury retailers expected sales in mainland China during the lockdown period to decline 60% to 95% from a year earlier, according to Bain research. Fresh produce purchases accelerated as customers prepared more meals at home; maintaining sufficient supply became a key differentiator for retailers, enhancing their credibility with consumers at a time of high anxiety.

Consumer adoption of **online channels** accelerated. Demand for omnichannel grocery offerings (delivery, in-store collection of items bought online) expanded rapidly. As the crisis grew, 80% of Chinese consumers expressed a preference for online grocery, though only about half could make purchases due to the lack of supply. (Delivering within agreed-upon windows proved to be another problem.) Chinese online retailer JD.com reported that its online grocery sales grew 215% year-over-year from late January to early February. **Marketing activities** migrated online, meanwhile, with messages tailored to suit changed circumstances.

Supply chains posed a huge challenge for most companies. Production and distribution center activity slowed down significantly (or stopped) due to forced extended holidays and quarantined workers.

Figure 2: The outbreak caused dramatic shifts in online purchases of consumer goods in China



Notes: Size of circles represents GMV for first 13 days of 2020 Lunar New Year. Luxury beauty includes cosmetics and skin care products (this definition is based on price segmentation instead of product type). Tmall ecosystem includes Tmall, Tmall Int'l and 淘鲜达 (1-hour O2O delivery).

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Restrictions on travel networks created logistical bottlenecks, exacerbating inbound and outbound supply chain obstacles. These constraints left some suppliers unable to meet the surge in demand for staple items; the resulting empty shelves only fueled more panic-buying—a phenomenon that retailers outside China are starting to experience, too.

Building on these local lessons, we encourage retailers globally to plan and respond in three key phases according to the status of the virus in their markets.

- **Phase 1.** The virus is present but has not yet infected many people. While day-to-day life is mostly normal, consumers are beginning to stock up on essentials and cut discretionary spending. In most countries, Phase 1 is well underway. Grocers need to react rapidly to address a surge in demand, while retailers in other categories need to get ready to respond to weaker demand. Retailers should use this phase to thoroughly prepare plans before a possible escalation into the next phase. The largest variable in terms of impact is public sentiment, as it moves from “it’s just the flu” to grave concern.
- **Phase 2.** The virus has become prevalent in the market (or in markets where supplies originate), with governments taking restrictive actions (such as quarantines or closing schools and public places) that result in labor shortages and considerable disruption to supply and demand, as well as retail operations and logistical flows.
- **Phase 3.** Recovery and beyond—the situation progressively returns to (a new) normal. Competitive positions and customer relationships may have been significantly altered.

We recommend the following checklist as a way of helping leadership teams frame their multiphase response in the very short term.

1. Empower your emergency response team

- If you haven’t done so already, set up a small emergency response team attached to the office of the chief executive, the chief financial officer and the chief risk officer.
- Give the team clear access to key executives and empower it to make cross-functional recommendations based on a rapid assessment of risks in key areas related to supply, inventory, the workforce, online/store operations and consumer sentiment.
- Outline clear daily responsibilities for the team in three areas: managing communication; tracking, reviewing and adjusting the emergency response; and reporting internal key performance indicators.
- Where relevant, set up local emergency response teams (such as by country, region, format, store or function).
- Give at least one person the full-time job of scanning relevant information on the spread of the virus and other retailers’ actions.

2. Protect people above all else

Retailers have a core obligation to protect the health and safety of their employees and patrons. Given the human contact inherent to most shopping, retailers should urgently move to decrease the risk of contamination—not just within their stores, but also in distribution centers and at the head office.

That means you should:

- Reiterate the importance of workers staying home if they feel ill, potentially screening or sending home individuals, since some conscientious employees will come in while unwell.
- Implement requirements for frequent hand washing and sanitization of surfaces.
- Equip employees with any sanitary or personal protection equipment (disinfecting wipes, masks, gloves, etc.) necessary to do their job safely.
- Cancel gatherings of 20 people or more that aren't critical.
- Identify high-risk employees and consider options for alternative work arrangements.
- Reduce or eliminate nonessential travel.
- Follow official advice on deep-cleaning the most-used areas or facilities, such as elevators, meeting rooms and toilets, as well as air purifiers, air conditioners and HVAC ducts.
- Potentially close cafeterias and canteens and no longer provide shared food and refreshments.
- Regulate or minimize office visits from third parties.

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Customers also need to be reassured about product and store safety. You should:

- Gain a full and real-time understanding of customer concerns by social media tracking and other forms of monitoring.
- Provide clear communication on hygiene procedures implemented for stores, staff and customers.

Defending Retail against the Coronavirus

- Regularly clean surfaces, payment terminals, counters and other frequently touched areas, while also weighing how to minimize risks from handling cash.
- Offer additional self-sanitizing options such as antibacterial cart wipes and hand sanitizer.
- Provide equipment (such as plastic gloves) to increase hygiene in self-service aisles. If the problem escalates, retailers should consider reducing or eliminating self-service options in categories such as produce, bakery and prepared food.
- Implement contactless service options where possible, such as self-checkout.
- Consider closing eat-in areas in stores in case of escalation.

3. Put store operations and online fulfillment into crisis mode

The necessary changes to store operations will vary according to the status of the outbreak under our three-phase model, as well as the retail category.

In Phase 1, grocers and mass retailers are likely to see more traffic. They'll need more workers to meet increased demand and quickly move stock from distribution centers to stores (especially essential "stock-up" items). At the same time, Phase 1 grocers and retailers will need to redouble cleaning efforts, while minimizing manual handling of products and encouraging self-checkout. They should also defer nonessential tasks in order to free personnel and prepare for a possible worsening of the situation.

For nonfood retailers, store traffic is likely to decline during Phase 1, as customers postpone spending on nonessentials and reduce trips outside the home. The response to the slowdown might include labor adjustments to reduce operational expenses. But nonfood retailers will also need to embrace the enhanced hygiene protocols followed by grocers, including extra cleaning of frequently touched areas. Furthermore, they should prepare employees for potential schedule disruptions should the situation escalate.

Grocers and mass retailers in Phase 2 should allocate as many in-store employees as possible to customer service, keeping items in stock, and online grocery picking and packing. Cross-training employees, or closing lower-priority aisles, can help ensure the completion of high-priority work.

In Phase 2, grocers, mass retailers and nonfood retailers should all brace themselves for a possible steeper decline in store traffic, as people become reluctant to leave home even for necessities. Leadership teams will need to anticipate labor shortages and implement back-up staffing plans to ensure continuity of service. At the head office, a “red and blue team” approach can help. This involves splitting core functions into two teams that can go into the office only every other day, or are segregated within the office. If someone gets sick on the “red team,” the “blue team” can still function while the other is quarantined. The system, which can also work in stores, helps to reassure employees too.

Grocers and mass retailers in Phase 2 should allocate as many in-store employees as possible to customer service, keeping items in stock, and online grocery picking and packing. Cross-training employees, or closing lower-priority aisles, can help ensure the completion of high-priority work. Other possible adjustments include changing opening hours in response to slower traffic and labor shortages (for nonfood stores, too), or even closing stores temporarily. If the outbreak worsens, grocers and mass retailers should consider checking the temperature of workers as well as customers when they enter the store. Limiting the number of customers in the store is another option. Ditto minimum physical-distance rules for customers and staff.

Retailers of all kinds can partially compensate for reduced foot traffic by accelerating online fulfillment. That means ensuring that suppliers can quickly ship inventory in critical categories and product ranges to fulfillment centers or stores (for click and collect). Retailers can also increase their resilience by scaling up their existing online offering and, potentially, expanding in-store collection for online orders. Since workforce shortages might become an issue, external partnerships could be an effective way to accelerate online deliveries. While all this is happening, marketing spending should be redirected online.

4. Optimize supply, distribution center operations and logistics

Supply is likely to be the biggest problem for retailers. The necessary responses will vary by category of product and type of supply chain (continuous replenishment vs. seasonal). However, all buying teams should shift their focus away from traditional buying negotiations and toward ensuring continuity of supply. For the most critical categories, this could mean living with compromises that would normally be unacceptable, such as looser payment terms.

Below are a few sample action checklists for specific categories.

Fresh produce

- Ensure sufficient local sourcing, to overcome the risk of a cross-regional transportation ban during a regional quarantine.
- Negotiate with suppliers, potentially to review packaging types. Consider individual plastic wraps to protect produce, at least temporarily, or consider prewrapped bulk packs instead of individual items.
- Focus communications on food safety and availability.

Packaged food and household essentials

- Quickly approach suppliers of branded and private-label consumer goods—particularly in the most in-demand categories—to adjust orders and skew shipments to high-priority distribution centers. Ask for shipment directly to stores if some distribution centers end up in quarantined zones or become understaffed. Use video conferencing or other technology to avoid personal contact, as required by the situation.
- Increase stock levels for high-demand items, and use customer data to identify substitutable brands or SKUs.
- Monitor stock levels and fulfillment every day. Block algorithms that are unsuited to current patterns of consumption, such as automatic replenishment.
- In certain categories, focus on larger packaging types or bulk buying to adjust to purchase patterns.
- Stop planned deliveries of nonessential categories or items.
- Control pricing and promotions. Keep promotion levels at typical category averages to avoid burning up budgets unnecessarily.

Seasonal nonfood categories, including apparel and luxury goods

- Understand primary and secondary risks in the supply chain. Quickly assess the risk of deliveries being delayed for the upcoming season (and the likelihood that this will translate into lower revenue through fewer sales at full price and possibly more end-of-season markdowns).
- Draw up alternative sourcing plans, such as onshoring the production for part of the collection, or buying from local wholesalers.

Continuous replenishment products

- Understand primary and secondary risks in the supply chain, particularly delivery risks.
- Review planned deliveries and develop contingency plans if demand rapidly decelerates.
- Stop planned deliveries of nonessential products; postpone production cycles for permanent items if inventory levels are sufficient.
- Prepare adjustments to pricing/promotions/markdowns.

For distribution center operations and logistics, many of the prescriptions overlap. Facilities, trucks and vans must be sanitized; hygiene protocols also need to be enhanced. Looming labor shortages will require careful back-up plans—perhaps aided by cross-training of staff—to ensure continuity of service.

Grocers should work with their suppliers to ensure that they have sufficient stock of critical items in their distribution centers, while interim hires might be necessary across the retail industry to maintain the overall logistical flow. Last but not least: Retailers should ensure that external logistics partners (such as delivery fleets) adhere to their elevated hygiene standards.

5. Save cash

COVID-19 will undoubtedly have a big impact on the profit-and-loss statement of many retailers. But leadership teams should focus more on cash flow over the coming weeks—and ensure that this shift in emphasis is understood throughout the senior managerial ranks. One option is to divert a small team of high performers from daily duties to model cash-focused scenarios instead of P&L-based budgeting, until the situation has stabilized. Other effective tactics include updating key executives on the cash position and outlook on a daily basis.

The increased focus on cash can go hand in hand with measures to reinforce the balance sheet, including drawing down all existing credit lines, and stopping or postponing all nonessential capital spending. A variety of working capital enhancements are also possible, such as measures to accelerate cash conversion (through markdowns on slow movers, etc.). Hiring freezes were common at Chinese retailers in the early stages of the crisis and are likely to become more prevalent internationally as the pandemic progresses. If necessary, companies can also reduce their overhead costs by canceling training that isn't critical and paring marketing spending in certain areas.

6. Communicate and collaborate

Because of retail's vital role in supporting society through crises such as the coronavirus outbreak, senior executives in the sector need to maintain open lines of communication with the authorities in each of their markets. That means being up to speed on the latest government thinking about curbing panic-buying and shortages, or potential lockdown areas that could be the next to face logistical constraints.

Retailers are a highly visible, branded face of the crisis response. This can create deep customer loyalty when they keep supplies flowing against the odds; however, their reputation can be ruined if some of their employees don't follow the precautions and health guidelines recommended by the authorities.

All employees—from the most senior to the most junior—want to hear important internal news from their leaders first, rather than through hearsay. (The investor community is no different, of course.) Communication designed to reassure the workforce on safety should also deal in specifics rather than generalities, highlighting concrete measures being taken to protect personnel. The same detailed approach to disseminating information can help to reassure customers, too. They want to visualize the extra cleaning that a store chain is doing, say. What's more, they want to feel that the company empathizes with the personal cost of the pandemic.

Even as affected retailers move to a more cash-focused approach to running their businesses, we think they'll benefit from increased investment in internal and external communication, especially if it's skewed to channels that are favored by customers and other stakeholders during periods of quarantine or self-isolation. That includes call centers, for both customers and suppliers, and social media, where resources will be needed to monitor and respond to misinformation—as well as performing the vital role of showing empathy.

7. Plan for the recovery and beyond

At moments of such strain, it can be hard to keep up with all the immediate challenges, let alone maintain focus on the medium and long term. Yet leadership teams in retail know they can't afford to lose sight of their broader goals during the turbulence created by COVID-19. They need to plan for the eventual recovery: Phase 3 of our approach.

Operationally, the return to (a new) normal won't happen overnight. Companies need to think about how they'll gradually wind down resources and teams that were dedicated to managing the crisis. Measures that enhanced safety and hygiene in the workplace shouldn't be dismantled hastily; likewise, we think the C-suite should remain biased toward overcommunicating on how the company is prioritizing health issues.

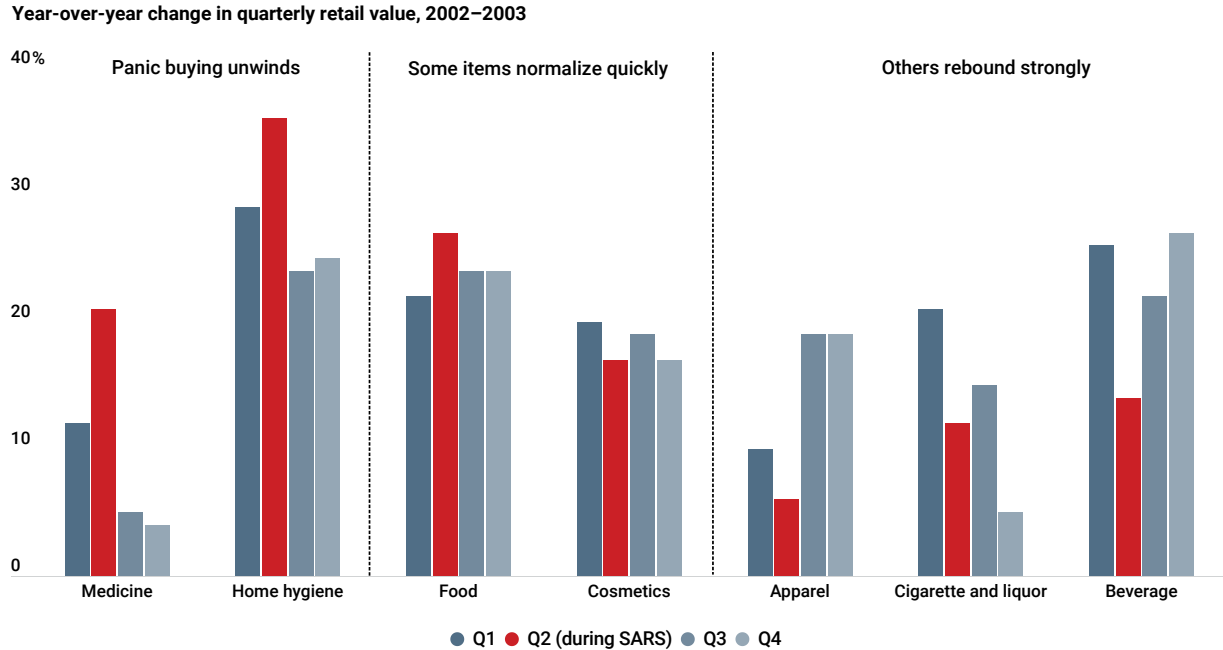
The lessons learned during the coronavirus outbreak can also serve as a template for responses to other external shocks in the future, ranging from economic downturns to terror attacks and natural disasters. Keeping the emergency response team active for a few weeks after the crisis is likely to be a good idea, enabling team members to conduct a full debriefing and codify their knowledge for future reference.

Short-term stock level planning will need to anticipate new (and probably fleeting) distortions in demand that are likely to occur in certain categories as shoppers resume their normal lives. Bain & Company's China team has looked at precrisis and postcrisis demand patterns in detail (see the Bain Briefs "China's Retailers and the Coronavirus Outbreak: Lessons from the Past" and "China's Consumer Industry Prepares for the Coronavirus Legacy").

China's recovery from the SARS outbreak in 2002–2003, for instance, featured a sharp drop in sales growth in some categories prone to stockpiling, such as home hygiene products, and a strong rebound in others where there was pent-up demand, such as apparel (see *Figure 3*). Executives need to factor in lingering distortions such as these when they consider the most appropriate time to restart the standard algorithms for automated reordering, shipment and price adjustments.

It goes without saying that 2020 plans will have to be reset, with new objectives, budgets and operational plans. Beyond 2020, executives will also need to refresh their three-year plan, with a particular focus on these key actions:

Figure 3: How consumer goods in China recovered after SARS



Note: Food excludes grocery and fresh products like meat/eggs

- Review customer and market data to highlight areas where market share has been gained or lost during the crisis—territory that a retailer will need to protect or win back during the recovery. That review should also cover how the retailer’s highest-value customers weathered the crisis, to identify high-priority actions to nurture those relationships.
- Develop commercial revitalization plans to reactivate demand.
- Develop investment plans to address increased omnichannel demand (in particular to increase flexible capacity for order fulfillment and delivery) and retain customers gained in the crisis.
- Design network redeployment plans as required, such as closing the most affected, least productive stores; opening stores or distribution centers as needed to fill gaps; and swapping assets with competitors in weak or strong areas.
- Review supply chain and logistical setups to increase flexibility, resilience and capabilities in the long run.
- Review buying strategy and relocate supply or production as needed. In fashion/luxury, review collection structures as needed to account for potential production bottlenecks, both for raw materials availability and third-party manufacturing capacity.

- If low consumer demand persists, lay out a clear path to continuous cost improvement and productivity increases. Review the role of automation in the supply chain and in stores to facilitate resilience and continuity of operations, should a future shock disrupt operations.
- Ensure the balance sheet is robust enough to withstand any hostile approaches.

COVID-19: A defining leadership moment

The coronavirus crisis is having a significant direct impact on retail, with multiple second-order effects that are still emerging in some cases. A focused and coordinated response to COVID-19 should now be at the top of the agenda for every retail CEO, as the industry globally will be living with its consequences for months or even years.

The specific changes to operations demanded by the situation are vast, touching on sweeping matters of continuity of supply and availability, rapid adaptation of online and offline channel operations, channel capacity and more. The outbreak also underlines the importance of preparation, rapid response, continual learning, adaptation and communication in contingency planning. Above all, the safety of customers and employees is, and will remain, the highest priority.

In these difficult times, employees, customers, the investor community and other critical stakeholders will be watching the industry's response carefully. This is a defining leadership moment. Embrace the challenge, take decisive actions that put people first, show empathy, overcommunicate and empower the team around you.

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