

# RESPONDING TO COVID-19

Six things retailers should do to keep  
calm and carry on



Duncan Brewer  
Deborah O'Neill  
Rachel Gregory

# RESPONDING TO COVID-19: SIX THINGS RETAILERS SHOULD DO TO KEEP CALM AND CARRY ON

As the number of cases of the Coronavirus (COVID-19) increases, the focus of companies must be on limiting the direct impact on employees and customers whilst supporting efforts to limit the spread of the virus. The healthcare sector, airlines, travel firms, and retailers are at the coalface of the immediate impact and face a huge challenge over the coming weeks to respond effectively to the emerging crisis.

In many countries retail is already a troubled sector, with declining consumer demand and the threat from online and discount models. With the UK economy flatlining in Q4 2019<sup>1</sup> and leading indicators such as business confidence suggest over half of companies see the virus posing a moderate or severe threat to their business<sup>2</sup>.

Against this backdrop retailers are already starting to see early impacts of COVID-19 as products shipped from China (and increasingly Italy) fail to arrive on time. As the outbreak becomes more widespread retailers face collapses in both supply and demand. Given the spread of the virus around the world, it's unlikely that these will smoothly happen at the same time.

The question for retailers is whether they can flexibly respond to these diametrically opposed challenges in an agile way, adapting their operations and commercial decision making rapidly to reflect the new day-to-day reality. Even at this relatively early stage in the outbreak, our analysis suggests that demand for many categories has already started falling, and supply from China has yet to return to the expected levels. Strong leadership will be needed, not just to steady the ship, but make the necessary decisions, cutting across traditional boundaries and thinking.

All retailers are working on their response to this challenge but, already facing material consumer headwinds and falling margins, it is not a stretch to imagine a situation where the players that are able to quickly adapt survive, with those unable to effectively react going out of business. We recommend all retailers take six actions immediately to navigate this challenging and unprecedented situation:

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1 Source: Office for National Statistics

2 Source: Institute of Directors

## SHIFT FROM BUSINESS CONTINUITY TO CRISIS MANAGEMENT

All retailers are revisiting their business continuity plans to reassure customers and colleagues, manage the inevitable supply chain constraints and demand shocks, by prioritising critical business activities and creating contingency plans for disruption. This is well underway but will be insufficient if the situation continues to develop at the pace of recent weeks. Retailers must plan and build a flexible and nimble crisis management capability now, not when it becomes a necessity.

After the initial set of actions that business continuity plans prescribe, management need to steer their response based on the actual situation they face, which will evolve each day. The challenge is to adapt to ever changing circumstances, where the right decisions on store operations, colleague management, logistics and pricing will vary day-to-day. Existing reporting frameworks, management information tools and annual or quarterly planning processes are unlikely to be sufficient to provide the necessary visibility, command and control.

It is critical that all retailers take a “Control Tower” approach, building a single point which contains all the key information and commands the decision making. Tailored scenario modelling and contingency planning to continuously “run the numbers” is needed, alongside rapid 80/20 decision making.

An example: It will be key for retailers to decide each day which stores to keep open. In the face of supply constraints or low staff availability, it may be better to close some stores where the customers can be served by other stores (or in extreme cases by a competitor). This will only become more critical as staff are unable to work (particularly if the virus affects clusters in specific towns and cities) and customers are asked to stay at home.

## SCENARIO PLAN TO THE SURVIVAL MINIMUM

Most firms right now are only in the early stages of their response: managing the immediate issues for their own staff, announcing travel bans, cancelling large-scale events, and implementing quarantine periods. This is critical but only scratches the surface of where retailers need to go.

Retailers need to rapidly consider a range of scenarios of how COVID-19 could impact their customers and their suppliers, as well as their own operations. Specifically, we believe three scenarios should be considered:

1. **Worst is over in two to three months:** Acute crisis largely resolved within a two- to three-month period, where business gets back to normal quickly after a material “bump” in the road.
2. **Six months to regain control:** More extensive period of disruption over a six-month period leading to a no-growth scenario for the economy or a limited recession.
3. **12+ months ongoing pandemic:** Virus spreads widely and public remains in heightened state of anxiety triggering a global recession.

We make no comment in this note as to which of these is most likely, but we recommend retailers consider all such scenarios and plan accordingly. Those who plan for the survival minimum will be best placed to adapt their businesses to the upcoming uncertainty.

### **Manage for supply constraints**

As shortages start to appear (either through stockpiling or supply constraints), retailers will need to understand which products are most at risk and proactively manage their pricing, promotions and logistics to ensure availability of supply for as long as possible. Retailers are naturally doing this already, given their logistics expertise. For many players, this is business as usual.

### **Deal with the decline in confidence**

As demand drops with consumers tightening their belts, retailers will need to focus on the basics: Managing short term costs, optimising choice and pricing while continuing to deliver a “reason to shop” with that retailer. There are opportunities for smart-thinking retailers to make the best of the situation.

### **Cope with staff shortages and demand drop**

As the situation worsens, retailers will need to make harder decisions about which activities, stores and channels to maintain, and which need to be stopped. At this point, many longer-term investments will no longer make sense and retailers will need to start making tough decisions about what they can afford to no longer do.

### **Move to the survival minimum**

In the most extreme scenarios, retailers will need to retrench to only those activities which directly support the day-to-day operation of the business. If physical stores are closed, retailers could see volume declines of 80-90%. Without a clear view of what is the bare minimum activity needed for survival, retailers run the risk of excessive costs and lose position to those who can operate more leanly. Of course, this needs to be done with care. Cutting investments that are needed for medium term survival ends in the same place.

No matter what happens over the next few months, the world of retail is becoming ever more complex and requires faster and better decision making across all functions. The right steps taken now to respond to this new threat will only help retailers survive the new normal.

## **TRIAGE THE BRICKS & MORTAR ESTATE NOW**

As the scenarios play out, each bricks and mortar store will be affected differently based on the local consumer demand and the levels of local competition. Retailers will need to forecast the potential demand for their estate at a store level, under all the different scenarios they face. As the situation quickly evolves these plans will have to evolve as local demand (and staff availability) changes.

We recommend a rapid “triage” approach based on an assessment of the sustainability of store locations. Any model will need to reflect:

- The evolution of local demand at each store, reflecting competitors and local events.
- The ability to offer a full or partial service in each store depending on how many staff are available.
- The ease of providing logistics to each store, depending on their specific location (and the robustness of the local supply chain).

While no retailer wants to allow customers to shop at a competitor, it may become necessary for essential sectors (e.g. food retailers) to smartly and appropriately work together to ensure continuation of service – up to and including only keeping one store open in each area. In the end, the responsibility to society may outweigh short-term competition.

## **DELIVER ON THE DEMAND FOR DIGITAL, BUT ECONOMICALLY**

If China is any indication, there will be a massive acceleration in customer demand for digital channels in the coming days. China’s online retailers saw a growth of between 200 and 600 percent in demand during the outbreak. All non-essential shops in Italy have been closed, so digital channels are becoming the only way to serve customer needs across much of the retail landscape. However, many retailers currently find online order fulfilment to be more expensive than their bricks and mortar offer, so this opportunity could cause further financial pain. To take advantage of this opportunity, we recommend that retailers:

- Scenario plan around spikes in digital channel usage to ensure that the systems will remain online if they experience a 600 percent increase in demand.
- Maximise the utilisation of your assets (e.g. delivery vans, distribution centres, etc.) to reduce the cost to serve while ensuring you can manage the additional demand. Where feasible and cost effective add capacity to ensure that customers aren’t forced to shop through competitors. For example, food retailers may choose to run some supermarkets as semi-dark stores – not open to customers but able to fulfil online orders.
- Optimise your online proposition to make the offer as economic as possible. Limit purchasing of essential goods to regulate demand and provide the essentials to the maximum number of customers. Identify which products are uneconomic to offer through online channels, and only offer these where the economics make sense (e.g. as part of larger baskets).
- Work to minimise Human to Human contact throughout your delivery chain. How will your customers sign for deliveries when they’re unable to meet the courier? Most retailers already have processes in place for this, but they may need to be extended to all deliveries.
- Find ways to reduce the cost to serve of online fulfilment. This could include working with competitors to jointly deliver product to customers to take advantage of the supply chain benefits. In a world where customers no longer want contact with deliver drivers, the opportunity for effective contact is already reduced.

## **PLAN FOR THE LONG HAUL**

Retailers need to manage their finances over both the short- and longer-term. Cutting costs today may help short-term survival but should not be done at the expense of building the foundations for thriving in the longer-term.

This starts by fully understanding all initiatives currently running and those planned for the future, including those building the strategic future of the business. Retailers now need to make the hard decisions about investments and activities to understand which are genuinely needed for the survival of the business in the short term, or for longer-term success.

The initiatives that should be continued are those that:

- Deliver rapid value through realisable cost savings rather than revenue growth given the likely reduction in demand.
- Have clear, measurable focussed outcomes that can be tracked and redirected as needed at regular intervals (without stifling progress).
- Don't rely on a small, non-fungible team, that may suffer from single points of failure and if appropriate reallocate team members from paused initiatives to strengthen delivery.

This will require strong leadership to understand the demands from all the different parts of the business and make the required decisions, supported by the right insight. Where a programme is mission-critical, ensure it is supported by the right level of senior focus.

## **BE FORCE FOR GOOD FOR YOUR CUSTOMERS**

The coming weeks and months will be challenging for everyone, and as one of the cornerstones of people's lives, retailers have a disproportionate role to play in reassuring customers and the broader community.

Retailers need to balance their financial needs against those of the role they play in their communities. For some of their customers, an open supermarket will provide them with reassurance that they're not alone.

The lessons from China are that retailers can be a force for good. As communities are quarantined, the retailers will play a hugely important role in feeding and protecting the local populations. This will need small changes to process and policies such as limiting sales of specific products or delivering other company's products with their delivery drivers, ensuring that everyone gets what they need.

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**The evolving COVID-19 situation is complex and a considered and well managed response by retailers will have a major bearing on how well they ride the waves. Retailers should see this an opportunity to out-perform their less agile competitors and build the foundations of a more digital, nimble business for the future.**

**There is already extensive work underway across all players on this issue, and we hope the six steps outlined in this article are helpful in making a difference in the weeks ahead.**

Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation.

For more information, please contact Duncan Brewer (Head of UK Retail) by email at [Duncan.Brewer@oliverwyman.com](mailto:Duncan.Brewer@oliverwyman.com) or by phone at +44 20 7333 8333.

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