



Retailing in a COVID-19 world

Retailers need to think through the longer-term implications of COVID-19.

René Vader | Global Leadership

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As entire countries come under quarantine orders and consumers around the world start to shun human contact, retailers are scrambling to adapt. They recognize the global response to the novel COVID-19 virus will have a significant impact on their business. They understand the situation is changing daily. And they know they have little time to respond.

Over the past few weeks, we have been talking with all our retail sector clients about the impact this pandemic may have on their business. More importantly, perhaps, we have been helping them think through how to prepare for the longer-term implications and remediate the shorter-term shocks.

Our conversations suggest there are five key areas where retail execs should be focusing their attention in today's highly-fluid social, economic and health environment.

1. Managing demand fluctuations

In 'red zone' markets where the virus is spreading, virtually every retail outlet – except grocery stores and pharmacies – has shut their

doors. Even those markets not under quarantine orders have seen a precarious drop off in physical footfall in retail outlets and malls.

Yet while some retailers are seeing demand fall away and customers shift channels, others are facing unprecedented spikes in demand. Grocery retailers, in particular, are dealing with significant out-of-stock situations on many key products as consumers hoover up supplies perceived to be essential. The ability to predict and manage demand has never been more important.

2. Shoring up the cash reserves

Retailers, particularly those with physical footprints, are rethinking their current cash positions and trying to assess how they will continue to pay the bills should the downturn in demand continue for a prolonged period of time. In particular, retailers should be taking a close look at their current and predicted liquidity profile and assessing any changes in their working capital dynamics or short term cash forecasts.

Given the industry's high dependency on cash to pay for stock, real estate and – importantly – staff, many retailers are now also talking with policy makers to see how they can influence and take advantage of any hardship funds, rental renegotiations and rate holidays.

Many retailers are also now reviewing their overall financial stability under a variety of different scenarios and, if required, engaging with lenders to refinance loans or amend financial covenants that may be impacted.

3. Protecting the people

The COVID-19 virus has already led to a number of workplace shut-downs and quarantines. Retailers must have a plan that ensures the safety of the employees while also trying to maintain business as usual activities. Beyond simply creating a crisis communications plan, retailers should be thinking about how they will manage their workforce under various different scenarios.

China's experience shows how innovative companies might address these challenges; during the height of the outbreak there, grocery operators temporarily hired thousands of restaurant employees who were idle due to restaurant closure to help meet spikes in demand. Other companies have been moving employees around the organization to fill gaps and relieve overworked departments.

4. Thinking about the longer-term supply challenges

While grocery retailers are trying to manage significant supply challenges due to consumer panic buying and resulting stock-outs, most non-food retailers are not yet feeling the full impact of supply disruptions; drops in demand coupled with long lead-times and inventory warehousing means that short-term supply is generally not a problem.

But, as the situation evolves, we expect to see significant variations in the magnitude and timing of supply chain disruptions across

geographies and subsectors. Retailers should be talking to their key suppliers to assess their risks, identify any indirect exposures and create contingency plans.

5. Talking to customers

Retailers should also be thinking about the impact these massive changes will have on the customer and the customer relationship. How will you maintain trust in your brand and your products and services? How will you reset expectations for today? And how will you recover the customer experience in the future?

In this environment, shoring up the customer relationship is just as important as shoring up the bottom line.

No going back

The long term social, economic and health impacts of the COVID-19 virus are still unknown. Our hope is that current global efforts to contain the virus and its impacts are successful. And our view suggests that smart retailers are thinking about all of the scenarios and planning accordingly.

Over the coming weeks, our Consumer and Retail leaders from around the world will be sharing their views on these, and many other topics critical to the industry. It will be our aim to bring together some of the best practices, innovative responses and new ideas that we see emerging across the industry as we deal with the implications of the COVID-19 virus.

Whether this situation lasts weeks or months, it is clear that the global response to this virus has fundamentally changed the reality for retailers. It's time to face that fact and start adapting.

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