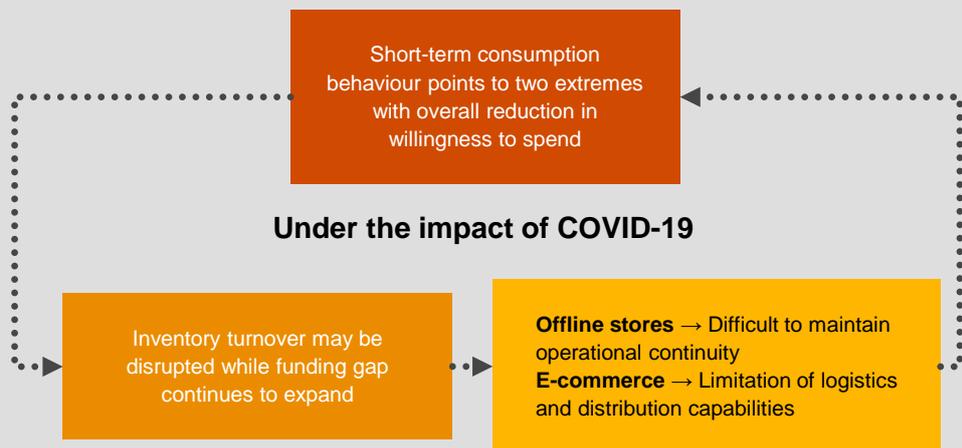


Weathering the economic impacts of Coronavirus: How can retailers/consumer goods companies turn crisis into opportunities?

The outbreak of the novel Coronavirus (COVID-19) has caught many consumers and retailers/consumer goods companies off guard in recent months. Traditional business models were being challenged and displaced while other retailers/consumer goods companies, particularly those with strong online presence, are eyeing on new opportunities resulting from a sea change in demand and consumption pattern. The existential challenges brought by the public health incident have in many ways prompted retail businesses to reassess their operating environment and act swiftly to rein in costs and find new revenue sources. This article explores some of the solutions that could help retailers/consumer goods companies turn crisis into opportunities.

Retailers/consumer goods companies are facing challenges under the impact of COVID-19



1. Short-term consumption behaviour points to two extremes with overall reduction in willingness to spend

In the short term, experienced-based, and service-oriented offline consumption intentions will be significantly reduced. On the other hand, consumers are more willing to choose e-commerce companies that can provide home delivery and instant delivery services, such as Freshippo and Dingdong Fresh, etc. Meanwhile, consumption demand for health, leisure/convenience food, and fresh food has bucked the trend and grown exponentially. Instant noodles, which has been hit hard by takeaways in recent years, are selling well now.

In general, consumption demand and expenditure are seeing a significant downtrend year-on-year.

2. Inventory turnover may be disrupted while funding gap continues to expand

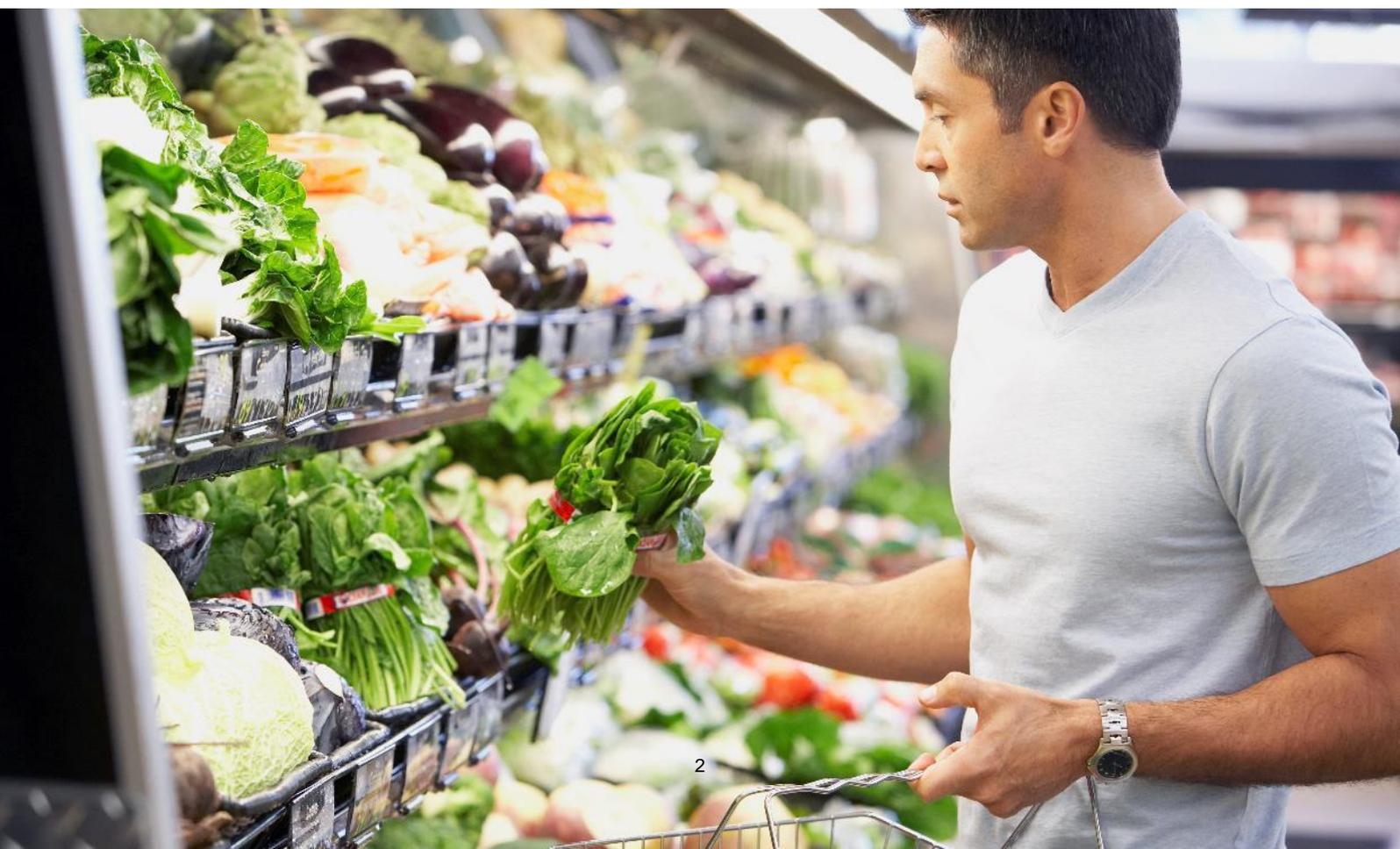
For most retailers/consumer goods companies, there is an immediate pressure for them to focus on managing excess inventory caused by a dip in consumer spending, especially for items with a shorter shelf life. On the contrary, certain popular commodities, such as disinfection products and instant food, may be out of stock due to the panic-driven buying spree. This has presented challenges to them trying to maintain stable supply of these commodities.

As impacted by COVID-19, many brick and mortar retail companies have seen a drastic decline in their short-term operating income, while their regular operating costs, such as labour cost and rent, did not register a proportionate drop. This could lead to the possible expansion of funding gap in the short term. One of the biggest challenges for retailers/consumer goods companies is how to maintain sufficient cash flow in difficult times.

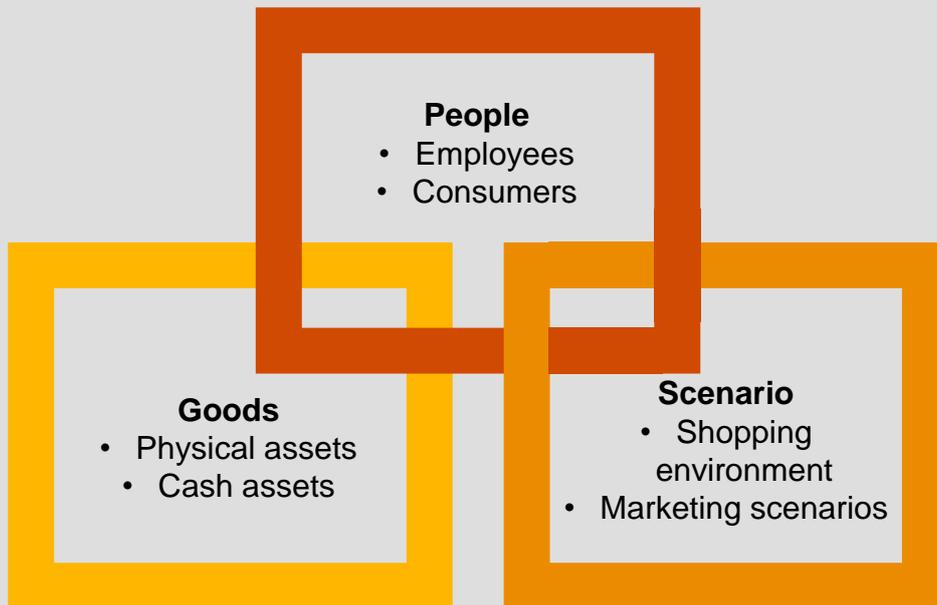
3. Offline stores facing various challenges while limitation of logistics and distribution capabilities have become the bottleneck for e-commerce.

During the ongoing COVID-19 outbreak, most brick and mortar businesses have experienced temporary store closures, declining customer flow and slow inventory turnover. For some retailers/consumer goods companies, this has prompted a bigger question of whether their business can maintain operational continuity. Meanwhile, a number of retailers/consumer goods companies have shifted their focus to online sales in view of a surge in consumers' willingness to spend online during the outbreak.

Whether it's for traditional e-commerce platforms or offline stores that rely on "online order + offline distribution" to support their service offerings, the limitation of logistics and distribution capabilities, including transportation capacity and delivery timeliness, have become the bottleneck for these companies in further developing their online business. The acute shortage of delivery personnel has become a new norm in the past month that retailers/consumer goods companies need to adapt to.



We recommend retailers/consumer goods companies to focus on “People,” “Goods,” and “Scenario”



It is still unclear how the epidemic will run its course and whether a turning point is near. Nevertheless, retailers/consumer goods companies should first figure out a way to survive an extended period of sluggish demand. Secondly, companies should face the problems exposed in the public health crisis to identify management weaknesses, take full advantage of internal strengths, and accelerate the pace of retail transformation. We have recently published a series of articles on “Preventing

diseases and responding to changes” to begin discussion with companies on how to confront challenges and overcome them in time of crisis. In this article, we suggest retail companies to develop countermeasures revolving around “people,” “goods,” and “scenarios”.



People:

A stable team of core employees lays the foundation for a company's survival and sustainable development during this COVID-19 outbreak. Meanwhile, companies should continue to be customer-centric in addressing their needs and enhancing trust.



Care about employees' physical and mental health, pay attention to their individual difficulties and strengthen enterprise cohesion

- Provide a safe and flexible working environment
- Ensure employees' basic income
- Support employees' career development

Focus on consumer needs and embrace corporate social responsibility to enhance consumer trust

- Keep consumer panic in check
- Stimulate consumer purchase intention
- Enhance consumer trust

1. Care about employees' physical and mental health, pay attention to their individual difficulties and strengthen enterprise cohesion

Provide a safe and flexible working environment

Companies should ensure their employees' health and safety through regular sanitation and disinfection of physical stores and provide personal protective equipment.

Companies should actively disseminate information and knowledge on disease prevention to raise employees' safety awareness. If circumstances allow, companies can consider providing employees with free online medical and psychological consultation services to take care of their physical and mental health to the largest extent possible.

Companies should allow back-office and support departments and employees with higher vulnerability to use remote office and teleconferencing when performing their daily work.

Ensure employees' basic income

Adjust the staff performance appraisal mechanism, especially for front-line sales staff.

Make an effort to create the necessary conditions for minimising talent loss caused by the shutdown. For example, during the outbreak, some catering companies reached an employee lease agreement with Freshippo, allowing them to not only lower their operating costs, but also protect the interests of their employees.

Support employees' career development

Companies can assist their employees to improve their business skills by developing remote training courses. For example, providing in-store sales consultants with online training on product information and customer service skills.

2. Focus on consumer needs and embrace corporate social responsibility to enhance consumer trust

Keep consumer panic in check

Brick and mortar stores should implement disease prevention measures, such as establishing a disease prevention emergency team, performing in-store sanitation and disinfection, as well as requiring employees and customers to wear masks for reassurance.

Stimulate consumer purchase intention

Traditional retail companies should accelerate digital transformation and increase consumer touch points by digital means, such as live broadcast, short videos, VR to stimulate consumer purchase intention and raise the volume of online marketing and sales.

Enhance consumer trust

In retail, how to "guarantee supply and stabilise price" at times of emergency is not only crucial to calming the people and enhancing consumer trust, but also an important company best practice of corporate social responsibility. Amid COVID-19, many retail companies have promised to take every measure to ensure sufficient supply without ever raising prices, and took actions to ensure in-store customers can buy in relief and at ease.

Talk the walk as you walk

Any decisive policies and measures directed at building customer and employee trust are only as effective as the channels through which they are communicated to the relevant stakeholders. At a time of public health crisis, lip services are as important as real services. The swift dissemination of accurate information about what retailers/consumer goods companies are doing for the society - ranging from increasing stock of certain merchandises to introducing robots to minimise human-to-human interactions in stores to providing face masks for employees - is instrumental to combating rumors and misinformation. Retailers/consumer goods companies who are transparent and communicative in how they are handling the crisis are better positioned to manage their stakeholder expectations and see their operations returning to normal, let alone securing a more positive brand image.

Goods:

The “goods” here refer to both the physical assets (commodities) and the cash assets (funds) for companies' operation, which are the lifeblood of retailers/consumer goods companies. During the COVID-19 outbreak, companies should put multiple measures in place to improve inventory turnover and cash flow management in order to tide over the crisis.



Speed up decision-making, respond to short-term irregular demand for certain merchandises

- Actively process inventory
- Pay attention to nearly expired and expired commodities
- Timely replenishment of best sellers
- Pay more emphasis on food packaging

Strengthen upstream-downstream collaboration, actively seek available resources, and work with partners to overcome difficulties

- Form a tighter and more integrated alliance with upstream and downstream partners
- Actively consult government to introduce supportive policies
- Optimise the supply chain

Reduce unnecessary expenses, exercise prudent assessment and planning of cash flow, and ensure sufficient capital flow

- Reduce unnecessary costs
- Refine planning of funds

1. Speed up decision-making, respond to short-term irregular demand for certain merchandises

Actively process inventory

Faced with a build-up of inventory caused by the lack of consumption, management should utilise data analytics to identify the holdup in the sale of commodities in time, and develop responsive and customised solutions taking into account the characteristics of different commodity categories. For example, if the customer group is relatively young, retailers/consumer goods companies can promote using live streaming plus e-commerce to encourage online ordering.

Companies that are more digital savvy, such as those that have created customer profiles in the early stage, management can try to use WeChat advertising and community buying.

Pay attention to nearly expired and expired commodities

For companies selling perishable foods, such as fruits and vegetables and fresh produce, an inventory stock-taking process with higher frequency (daily) and broader coverage (especially for SKU with shorter effective period), and a designated person in charge (store manager) should be implemented. Expired commodities must be pulled from the shelves, and discounts can be given on those goods that are nearly expired.

Simultaneously, the main focus should be on the nearly expired and expired commodities during regional personnel's random store inspection, which should be listed as a key performance indicator for appraisal to prevent negative events from affecting the company.

Timely replenishment of best sellers

During the outbreak, certain commodities in short supply, such as disinfection products, convenience food and vegetables, were snapped up before they can be replenished. We suggest the management to:

Establish a timely and effective communication and feedback mechanism, where each function across departments, including sales, logistics distribution, and procurement, can communicate to provide feedback. The companies' senior management should also proactively participate and make decisions.

Develop and implement systematic replenishment mechanism, identify potential out-of-stock commodities using data analytics, conduct inter-regional and inter-store transshipment and nearby warehouse replenishment using data visualisations/dashboards.

Be more flexible in sourcing and ensure a stable supply by connecting directly to the production sources to get supply from origin. Expand the sourcing channels in multiple regions, and increase the stock in advance to mitigate the risk of commodity shortage.

Pay more emphasis on food packaging

During COVID-19, demand for packaged food and semi-finished products have increased dramatically because of their relative safety and convenience. We suggest supermarkets and food companies should react quickly, understand the packaged food categories and the shopping preferences of target consumers (for example, a segment of young families of three with spending power may lower their price sensitivity and choose small packaging of pre-washed organic vegetables and convenience food). So retailers/consumer goods companies should develop and adjust business strategies accordingly, build your internal professional team to be responsible for operation and communication with suppliers.

2. Strengthen upstream-downstream collaboration, actively seek available resources, and work with partners to overcome difficulties

Form a tighter and more integrated alliance with upstream and downstream partners

Retailers/consumer goods companies should strengthen communication and collaboration with manufacturers, suppliers, dealers, property lessors and financial institutions to jointly weather through the challenges caused by the outbreak, and lay a good foundation for closer cooperation in the future. For example, companies should discuss with suppliers on deferred payments; renegotiate the opening plan for dealer stores under construction; discuss with lessors on rent waivers or deferred payments, etc. Companies with idle funds should consider helping upstream and downstream partners to tide over temporary difficulties through supply chain finance, etc.

Industry leaders should also set an example such as commercial real estate giants Wanda and Suning offered “reduced and relieved” rent on their stores. Alibaba has exempted all Tmall merchants from paying service fees for its platform in the first half of 2020. Ant Financial’s MYbank has offered RMB10 billion loan for Tmall merchants registered in Hubei province.

Actively consult government to introduce supportive policies

In addition to tax cuts, companies should be proactive in putting forward solutions to provide references for the government to make relevant supportive policies. Currently, the Suzhou government has introduced **Ten Policy Opinions on Pneumonia Diseases in Response to New Coronavirus Infection to Support SMEs to Tide over Difficulties Together**, including measures to solve the companies’ financial problems, offering tax cuts for SMEs and extending social insurance payment period to reduce their burden.

Optimise the supply chain

More attention should be given to the efficiency of the supply chain, including the normal operation of production, contract

performance, and order issuance. The supply chain should be flexible and enhanced to deliver the right commodities to the right warehouses, stores or consumers at the right time.

Information transparency between companies and suppliers should be further increased, so as to get timely status updates on when suppliers resume their work and identify potential production shortage problems. Information about market fluctuations can also be shared with suppliers to foster mutual trust and confidence, so that production and procurement plans can be adjusted in a more timely manner.

Establish a monitoring mechanism in each important link of the supply chain to ensure demand can be catered immediately. Actively communicate with logistics operators to optimise logistics management, and carry out a series of transport capacity and route adjustments due to the outbreak situation and update the procurement plan.

3. Reduce unnecessary expenses, exercise prudent assessment and planning of cash flow, and ensure sufficient capital flow

Reduce unnecessary costs

In the short term, expenses not directly related to a company’s survival should be minimised as much as possible. Deferred payment should be negotiated with suppliers. Management needs to develop a phased optimisation approach to reduce expenses, and take a thorough look at their capital expenditure pattern. Remove unnecessary expenses, such as equipment sourcing, store renovation, etc.

Refine planning of funds

Management needs to develop a more refined measure of cash flow estimation, ensuring that funds are used as efficiently as possible. Apply leverage flexibly but prudently and maintain close ties with banks and other financial institutions. Keep an eye on a series of supportive policies released by the government, and save necessary cash in hand to weather the crisis.



Scenario:

Whether in-store or online, a good physical or virtual shopping environment can stimulate consumption intent, while innovation and digitalisation can breed potential business opportunities.



Create a safer and more reassuring in-store shopping environment for consumers

- Strict disinfection
- Wear mask and conduct necessary quarantine
- Display commodities in a more targeted manner

Accelerate online transformation with further focus on logistics and delivery

- Enhance O2O integration
- Focus on delivery capacity of logistics and timeliness of distribution

Diversify marketing scenarios to accelerate digital transformation and upgrading

- Actively seek innovative path to growth
- Digital transformation remains a top priority for retail companies' survival and growth

1. Create a safer and more reassuring in-store shopping environment for consumers

Strict disinfection

Companies should develop management and control requirements, and operational procedures for hygienic environmental safety.

Wear mask and conduct necessary quarantine

Front-line employees should be required to wear masks at work. Stores should be equipped with temperature detectors to check the body temperature of incoming guests and staff. Once an infection is found, consideration should be given to close the affected stores.

Display commodities in a more targeted manner

Fresh products like vegetables and fruits should be packaged to ensure food safety. Commodities should be displayed according to the popular themes of the season, such as emphasising on nutritional balance and medical-related topics, so that consumers can see the companies' rationale, which may improve the associated purchase rate. Focus on the visible shelf display of nearly expired commodities, and give discounts to promote consumption.

2. Accelerate online transformation with further focus on logistics and delivery

Enhance O2O integration

During the outbreak, management needs to respond quickly and seek remedies online due to the significant reduction of offline customer flow, including considering increasing the sales proportion of online order + offline delivery. For example, Bestore, located in the one of the most impacted areas, succeeded in coordinating transshipment of commodities from different warehouses to Tmall and JD platforms, so that purchases on the ecommerce platforms could be delivered to consumers outside of Hubei area during the Spring Festival.

Focus on delivery capacity of logistics and timeliness of distribution

The scale of "home delivery" business has grown rapidly in a short period of time due to the outbreak. But the overall logistics and distribution capacity has become the bottleneck for many retail companies. Retailers/consumer goods companies are urged to review their current business condition and develop proper logistics strategies, particularly in the area of real-time logistics capacity for inventory management. For example, cooperation between existing central warehouse, front warehouse and brick and mortar stores should be strengthened. Warehousing or logistics distribution plans should be arranged based on the demand of consumers on the immediacy of different commodities. Collaborate with third-party logistics companies and food delivery companies and contactless distribution should be explored.

3. Diversify marketing scenarios to accelerate digital transformation and upgrading

Actively seek innovative path to growth

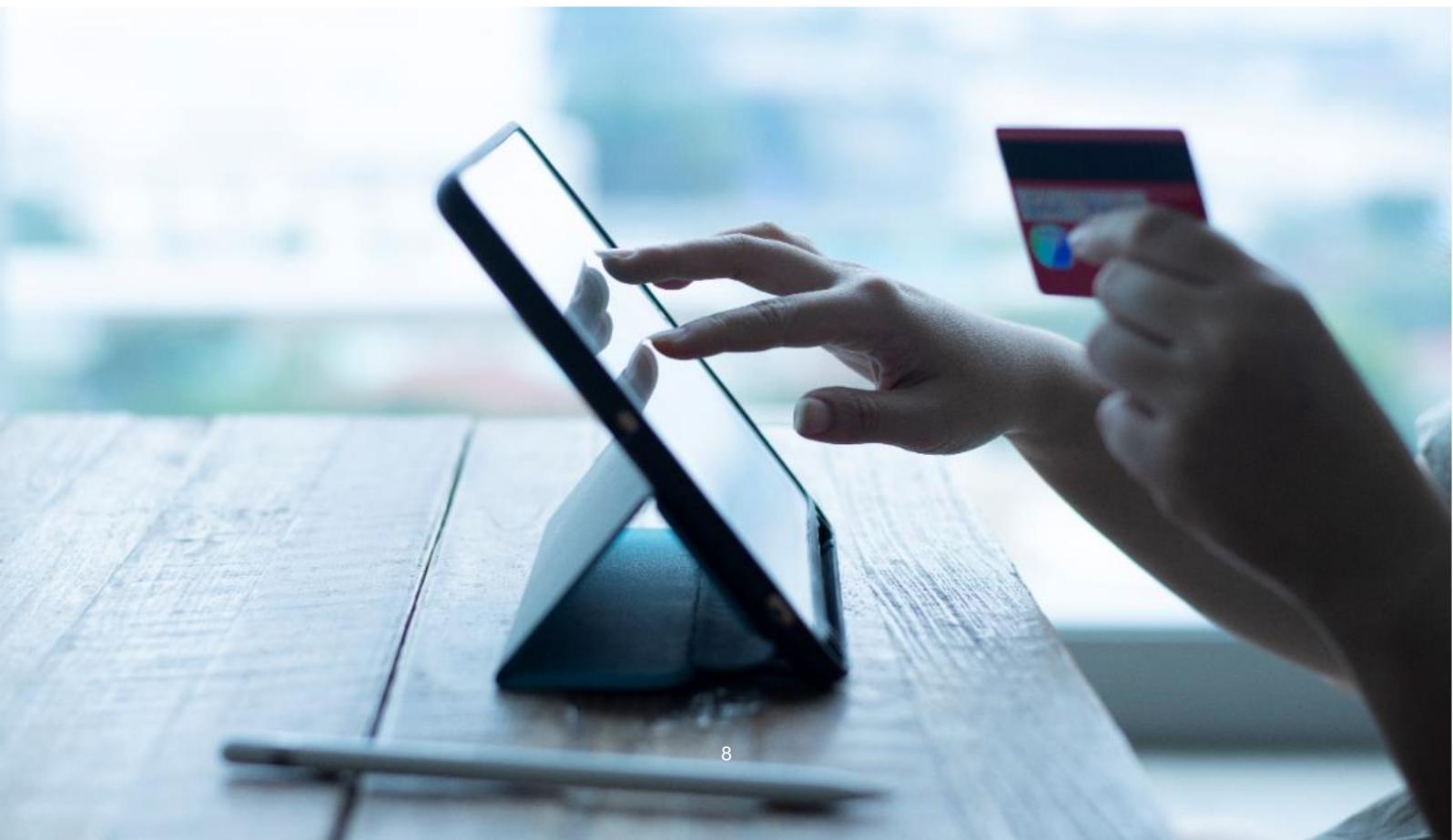
The rapid growth of traffic attracted by live streaming platforms during the outbreak has caught the attention of many brands, which has increased the influence of live streaming e-commerce during the outbreak. In the future, live streaming at the scene may become standard business practice. Consumers are more likely to choose “home delivery” service because of the home quarantine requirements for COVID-19 prevention. The demand for home delivery services, including delivery of vegetables and customised catering, will continue to thrive in the future. The once unpopular sector of unmanned retail/unmanned catering that minimises human interactions may regain traction, and appeared in the radar for some retail companies as a viable option.

Digital transformation remains a top priority for retail companies' survival and growth

We can see that companies with good digital foundation and strong supply chain management ability are in better position to address the pain points in each aspect along the retail value chain from information flow, logistics, to capital flow, and are more likely to survive in the chilly winter. The epidemic is expected to prompt consumer retail companies to further accelerate digital transformation.

We believe that retail companies in mainland China should pursue a more conservative strategy, one that is more consumer-oriented with a focus on improving profitability and optimising operations. The management of retail companies must stay optimistic, support the core team members by establishing a multi-dimensional staff guarantee structure; save enough cash flow to handle the crisis, enhance consumer trust in the brand by addressing their special needs at this challenging time. This is also a timely opportunity for retailers/consumer goods companies to revisit and rebuild a more direct, genuine, and caring customer relationship, by interacting with them at a deeper level through digital and innovative means.

These recommendations are also best-suited for retailers/consumer goods companies in Hong Kong, who are facing a similarly dire situation, with the ongoing epidemic and plummeting tourist arrivals likely to cause a further blow to the already faltering local retail market following last year's social unrest. Companies who are more agile and adaptive in developing robust digital foundation and supply chain management capabilities are in better position to address the various pain points along the retail value chain. For more insights on the topic, we urge you to read two of our recently launched articles, titled “Deals — Succeeding in Uncertainty: Responding to COVID-19” and “A quick guide for staying in business during the coronavirus outbreak”.





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