Moving towards a resilient retail sector post Covid-19
Contents

6
Indian retail industry in the wake of COVID-19

• Key retailer issues - Now, Next & Beyond

10
COVID-19 and the evolution of consumer behavior

• Probable consumer behavior shifts in India - Now, Next & Beyond

• Speed of recovery of key retail categories in India

18
Resilience strategies for Indian retailers - Now, Next & Beyond

22
Conclusion - a new retail landscape
The COVID-19 pandemic continues to impact most industries at an unprecedented scale globally, including retail that has witnessed significant disruption over the past few months. Amidst widespread health concerns, travel restrictions and local movement limitations, retailers in India, where the crisis has just started playing out, are already feeling the heat.

Indian retailers are faced with a multitude of challenges - “now”, “next”, and “beyond”. We are currently in the “now” phase where most retailers are coping with a complete pause in business. Even food and grocery players, and chemists, that deal with essential commodities, although allowed to operate now are facing challenges. These challenges include, managing consumer demand, ensuring liquidity, supply chain disruptions, management of store operations to ensure social distancing and proper hygiene, governance issues, and ensuring health and safety of employees. In the medium term, or the “next” phase, where the government starts easing restrictions, retailers will need to focus on bouncing back from the current situation. In the long-term “beyond” phase, they need to focus on transforming to succeed in a new business landscape. The challenges would be to cater to consumers via their preferred channels and to build business resiliency to operate smoothly during future crises.

Retailers must also proactively anticipate and be ready to respond to new habits that consumers will develop after living through a harrowing pandemic. Three possible trends that will emerge will be increased focus on health and wellbeing, higher demand for value brands as consumers trade down, and accelerated adoption of online (even by new online shoppers like older aged people).

The COVID-19 crisis is expected to impact some retail categories more than others. While essentials (personal care, food and beverage, home care) would be the lesser impacted, health and economic concerns would reduce consumer confidence and their spend on non-essential goods (apparel, furniture) and investment items (consumer electronics, jewelry). Hence, the consumer products that are essential and affordable would witness a relatively quicker recovery as compared to discretionary and expensive products.

To mitigate the disruption caused by this crisis, Indian retailers will need to devise strategies for the “now”, “next” and “beyond”. While they need to manage their costs through operational improvement and by evaluating the store portfolio, they also invest in service, experience, and omni-channel to serve the new consumer.

Lastly, every crisis is an opportunity in disguise. The pandemic will reshape Indian retail, and the players ready to seize the opportunities of today would be leaders of the new retail industry that emerges post the crisis. The structural shift towards online during the crisis will persist and accelerate the long-term trend. However, the value proposition of kirana stores would be further entrenched as they continue to provide consumers with essential goods during the crisis. Moreover, in many segments the crisis will drive consolidation. Players with weak value proposition that have struggled before, will disappear. However, strong differentiated players will reap market shares. While nobody can predict with certainty when this crisis will end and its material effect on the sector, what one can surely do is prepare to withstand any disruption along the way.
The pandemic amidst an economic slowdown has impacted Indian retailers, especially selling non-essential items like apparel and jewelry (revenue hit by ~75% by end of March). With most state governments directing shut down of all non-essential business activities, several retail stores are either entirely closed or only operating grocery sections. India’s retail sector which contributes to 40% of consumption took a US$30 billion hit due to COVID-19 over two weeks ending 1 April 2020, as per Confederation of All India Traders (CAIT). According to Retailers Association of India (RAI), by end of February 2020, the business had dropped to 20-25% in the past one and a half months, it further reduced to 15%.

Over time, we expect Indian retailers to navigate through three different phases:

1. **Now – Immediate response**
   - Characterized by widespread transmission of virus and strict lockdown imposed by government
   - Retailers respond to immediate challenges
   - Expected to last for about 3 months starting end of March 2020 (when lockdown was imposed)

2. **Next – Reboot and react**
   - Strong public health response by government and healthcare providers helps in controlling virus spread
   - Retailers respond to medium-term challenges and opportunities, largely from disruptions in the sector
   - Retailers are on a path to recovery, timeline varying by category
   - Expected to last for about 9 months starting end of June 2020

3. **Beyond – Adapt to the new world**
   - Marks the worst of crisis being over, consumers gain confidence and spending improves
   - Retailers respond to transformative, long-term challenges and opportunities
   - Retailers move to pre-crisis levels

We are currently in the “now” phase wherein retailers are grappling with a multitude of challenges around employee and consumer health and safety, supply chain, labor force, liquidity and cash flow, and fluctuating consumer demand. According to RAI, if India continues to be in state of lockdown till June, 30% of retail stores operating in India may have to shut down. While short term impact on retail will be severe, companies will also need to prepare to tackle challenges as they bounce back.
Key retailer issues - Now, Next & Beyond

We spoke to several retailers, and our conversations suggest there are issues that are on top of their mind for the short, medium and long term.

**Now**

- Prioritizing health and safety of frontline staff wherever stores are operational
- Furloughing workforce due to collapsed demand or lockdown
- Restricted travel, flexible/remote working arrangement for non store facing employees
- Crowd management due to panic buying while maintaining adequate social distancing standards at grocery stores
- Handling media reporting of any negative cases related to hygiene at stores. Adhering to stringent store, shelf and trolley cleaning frequency to maintain high hygiene standards for customers
- Continuous customer engagement while maintaining image of a responsible, empathetic and purpose-led brand
- Cross function teams working remotely leading to technology challenges (VPN bandwidth, remote application access, video conferencing, cloud management)
- Augmenting digital infrastructure to cope with spike in online traffic
- Boosting in-store technology for contactless consumer experience
- Quick response to government directed emergency measures and legislative amendments
- Effective utilization of schemes for financial relief including grace period for filing taxes, moratorium for repaying bank loans and job support subsidy

**Employee well being and workforce management**

- Planning long term optimization in payroll related expenses (such as bonus, increment)
- Realigning workforce to focus on digital and re-training employees to adapt to new ways of working
- Planning ways to attract talent through innovative HR policies when demand picks up in case layoffs have taken place

**Customer and brand protection**

- Planning for implementation of permanent health and safety measures in stores to reinforce customer trust
- Adapting to shift in customer behavior (such as increased adoption of online)
- Measures to regain customers as they could trade down and defer discretionary spend for some time
- Identifying and preparing for demand tail winds like Diwali and marriage season

**Technology, business continuity and cyber security**

- Long term upgrading of critical technology infrastructure to ensure business continuity
- Enhancing digital security and minimizing risk of data theft, malware and misinformation
- Strengthening business continuity planning, such as crisis steering committee for future pandemics

**Government**

- Abiding by long term government safeguarding directives
- Seeking continued government support through industry representation

**Next and Beyond**

- Managing supply chain disruption of essentials (grocery, packed foods, home care) due to production shutdown, restriction on truck movement while meeting unprecedented spike in demand
- Store closures and significant drop in demand for non-essentials (apparel, lifestyle) leading to inventory pile up of current season and expected arrival of next season stock
- Coordination between online and offline teams in handling significant spike in online demand. As per Euromonitor, during first week of April 2020, 75% essential product SKUs were out of stock in India’s online retail channel when compared to US (31%) and Spain (9%)
- Planning effectively for short term liquidity and working capital management in non-essential retail
- Meeting fixed cost obligations including rent, salaries in absence of adequate revenue inflow. (Rent and staff costs contribute to over half of overall expenses of retailers and restaurants)
- Planning for implementation of permanent health and safety measures in stores to reinforce customer trust
- Adapting to shift in customer behavior (such as increased adoption of online)
- Measures to regain customers as they could trade down and defer discretionary spend for some time
- Identifying and preparing for demand tail winds like Diwali and marriage season

**Supply chain and global trade**

- Ensuring strict governance around statutory compliance, timely reporting and fraud detection mechanism
- Ensuring robust legal communication to counter disruption
- Ensuring adequate liquidity after resumption of stalled business
- Managing erosion of profit arising from stock liquidation, increased receivables from partners and payables
- Potential default of bank obligation rising from high fixed costs but reduced revenue inflow
- Capital expenditure plans for new stores and refurbishment put on hold impacting long term growth
- Renegotiating contracts to minimize impact of shutdown and reduced demand

**Management**

- Managing shift in supply chain and pivoting to new normal ways of working that focus on e-commerce and direct to consumer
- Mitigating overdependency on few vendors in supply chain ecosystem
- Ensuring uninterrupted supply from suppliers located in COVID hotspot areas
- Agile inventory management in apparel/fashion (such as buy plan amendment, discounting) to meet consumer demand in subsequent seasons
- Ensuring strict governance around statutory compliance, timely reporting and fraud detection mechanism
- Ensuring robust legal communication to counter disruption
- Ensuring adequate liquidity after resumption of stalled business
- Managing erosion of profit arising from stock liquidation, increased receivables from partners and payables
- Potential default of bank obligation rising from high fixed costs but reduced revenue inflow
- Capital expenditure plans for new stores and refurbishment put on hold impacting long term growth
- Renegotiating contracts to minimize impact of shutdown and reduced demand

**Insurance and Legal**

- Ensuring strict governance around statutory compliance, timely reporting and fraud detection mechanism
- Ensuring robust legal communication to counter disruption
- Ensuring adequate liquidity after resumption of stalled business
- Managing erosion of profit arising from stock liquidation, increased receivables from partners and payables
- Potential default of bank obligation rising from high fixed costs but reduced revenue inflow
- Capital expenditure plans for new stores and refurbishment put on hold impacting long term growth
- Renegotiating contracts to minimize impact of shutdown and reduced demand

**EY Resilience themes**

- Reassessing insurance policies’ clauses and coverage for protection against future risks
- Reviewing agreement/contract clauses with all stakeholders to reduce future risks


The crisis will have a long-term impact on consumer behavior and retailers will need to devise transformation strategies to better match this new reality. In the current uncertainty, consumer behavioral changes are emerging and some of these may become permanent.
COVID-19 and the evolution of consumer behavior

We believe consumer behavior (how they consume, shop, live, use technology, work and move) will shift across three horizons, leading from the “now” phase to the “beyond”.

In the “now” phase, consumers are stockpiling essential goods and there is significant surge in e-commerce and digital payments, while kirana stores continue to host smaller crowds, in both urban and rural areas. In the “next” phase, daily life will resume, but health and economic concerns will reduce consumer confidence. Brand loyalty will diminish as consumers trade down and consume cheaper/private label brands. Focus on health will gain importance. New online shoppers such as old and rural consumers will continue to adopt digital. But, for rural consumers survival on essentials will continue. Online adoption will continue to accelerate “beyond” the crisis. Consumers will be more conscious and purpose-led brands will win.

Probable consumer behavior shifts in India – Now, Next & Beyond

<table>
<thead>
<tr>
<th>Aspects of consumer’s life</th>
<th>Now</th>
<th>Next</th>
<th>Beyond</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Live</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Obsess over personal hygiene and home cleaning; more than 90% households washed hands more often, close to 50% households cleaned toilets more often during 23-22 March 2020</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Keep social distancing; stop going out for shopping or entertainment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decline in food service and increased eating at home. Over 95% of restaurants shut during initial lockdown week and Zomato operated at 30% delivery capacity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Curtail all non-essential spending</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Live under panic for health and wellbeing, availability of essentials, source of earning</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Work</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shift to work-from-home model for majority workforce in services sector</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gig workers lose as volume of work reduces and permanent employees take over</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Ingrain personal hygiene and home cleaning as part of living</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lower the over crowding of public places and honour personal space</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seek cleanliness certified restaurants</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rethink spending habits, save more</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stay prepared for future adversities and prevent panic</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Aspects of consumer’s life</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Next</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Habitate to increased personal hygiene and home cleaning, including in rural</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Continue to focus on social distancing; step out occasionally to visit safe places</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reallocation of spend from travel and vacations to retail and dining; eat out occasionally at trusted restaurants</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improve purchases during upcoming festivals (apparel/electronics during Diwali) but spending is judicious</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rebuild trust, stock up essentials for extended period, build contingency fund</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Beyond</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ingrain personal hygiene and home cleaning as part of living</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lower the over crowding of public places and honour personal space</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seek cleanliness certified restaurants</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rethink spending habits, save more</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stay prepared for future adversities and prevent panic</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Shift to work-from-home model for majority workforce in services sector</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gig workers lose as volume of work reduces and permanent employees take over</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Continue work-from-home as much as and wherever possible</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seek safer working environment for workforce where working-from-home is not an option</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Build sustained and agile working-from-home model for such future scenarios</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Demand for safety certified working environment in all sectors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefits enjoyed by permanent employees will be extended to gig workers</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Aspects of consumer’s life**

<table>
<thead>
<tr>
<th>Lower brand stickiness, purchase products that do the job</th>
<th>禊</th>
<th>Adopt value brands/private labels in more discretionary categories as shoppers trade down - impacting brand loyalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase consumption of packaged, healthier, immunity boosting foods and beverages, and hygiene and cleaning products</td>
<td>禊</td>
<td>Choose preferred brand in essential categories (grocery, personal care) as availability improves</td>
</tr>
<tr>
<td>Increase intake of OTC medicines for cold &amp; cough and vitamins</td>
<td>禊</td>
<td>Continue consumption of packaged, healthier, immunity boosting foods and beverages, and hygiene and cleaning products</td>
</tr>
<tr>
<td>Shift from on-premise consumption of alcoholic beverages to at home consumption</td>
<td>禊</td>
<td>Maintain stock of preventive medicines for cold &amp; cough and vitamins</td>
</tr>
<tr>
<td>Curtail spending on beauty and make-up, and tobacco products</td>
<td>禊</td>
<td>Increase spending on beauty and make-up, tobacco products, alcoholic and aperitif drinks</td>
</tr>
<tr>
<td>Stop purchase of consumer appliances and electronics, and luxury goods</td>
<td>禊</td>
<td>Defefer buying of non-essential appliances and electronics, and luxury goods</td>
</tr>
<tr>
<td>Buy preventive products like masks, gloves, and sanitizers to curtail the spread of infection</td>
<td>禊</td>
<td>Continue to wear preventive equipment to avoid further spread</td>
</tr>
<tr>
<td>Build immunity by consuming immunity boosting products and improve health by at-home exercises</td>
<td>禊</td>
<td>Address possible mental health issues arising from stretched periods of social distancing along with physical health</td>
</tr>
<tr>
<td>Consult physician on call</td>
<td>禊</td>
<td>Rise in on-call consultation and telemedicine</td>
</tr>
<tr>
<td>Avoid stepping out of house unless critical</td>
<td>禊</td>
<td>Daily routines (work, school) resume but with more caution</td>
</tr>
<tr>
<td>Avoid public transport and parks</td>
<td>禊</td>
<td>Avoid public transport and crowded areas</td>
</tr>
<tr>
<td>Stop intra-city or intercity movement; no international travel</td>
<td>禊</td>
<td>Loosen travel restrictions to allow supplies of goods; restrained intercity and international fluid people movement</td>
</tr>
</tbody>
</table>

**Stay healthy**

| Source: EY analysis |

**Use technology**

<table>
<thead>
<tr>
<th>Use mobile apps for online ordering, digital payment modes for contactless payments</th>
<th>禊</th>
<th>Use existing health apps, online learning platforms, video calling facilities, virtual gaming options</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use online gaming options, stream online video content. Users spent 12% more time on online streaming platforms during lockdown (20 March-3 April 2020) than before (13 January-2 February 2020)</td>
<td>祐</td>
<td>Increase in perceived value for products that guarantee better health and hygiene</td>
</tr>
<tr>
<td>Increase outside home movement</td>
<td>祐</td>
<td>Increase in penetration of digital channels for shopping</td>
</tr>
<tr>
<td>Lift restrictions on people movement with renewed health advisory precautions; caution in international travel</td>
<td>祐</td>
<td>Increase in use of online platforms that offer health, entertainment, upskilling and socializing options</td>
</tr>
</tbody>
</table>

**Play**

<table>
<thead>
<tr>
<th>Use existing health apps, online learning platforms, video calling facilities, virtual gaming options</th>
<th>祐</th>
<th>Increase in use of online platforms that offer health, entertainment, upskilling and socializing options</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use online gaming options, stream online video content. Users spent 12% more time on online streaming platforms during lockdown (20 March-3 April 2020) than before (13 January-2 February 2020)</td>
<td>祐</td>
<td>Increase outside home movement</td>
</tr>
<tr>
<td>Avoid in-person, outdoor entertainment activities</td>
<td>祐</td>
<td>Avoid in-person, outdoor entertainment activities</td>
</tr>
</tbody>
</table>

**Shop**

<table>
<thead>
<tr>
<th>Stockpile the essential goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase online purchase and home delivery but minimum store visits. BigBasket recorded 2x growth in customer traffic during week ending 15 March 2020</td>
</tr>
<tr>
<td>Neighbourhood grocery stores gain relevance. 60% of consumers who visited local retail stores during 25-26 March 2020 claimed to buy nearly what they needed</td>
</tr>
<tr>
<td>Surge in first-time online buyers for essentials like grocery, hygiene and cleaning products (for example older generations)</td>
</tr>
<tr>
<td>Maintain sufficient supplies of products</td>
</tr>
<tr>
<td>Continue online buying of essentials, increase online buying of non-essentials</td>
</tr>
<tr>
<td>Resume visits to stores which provide trusted safety but large store/mall visits still lower than earlier levels and are objective led / time bound</td>
</tr>
</tbody>
</table>

**Move**

<table>
<thead>
<tr>
<th>Remain sedentary towards a resilient retail sector post Covid-19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resume visits to stores which provide trusted safety but large store/mall visits still lower than earlier levels and are objective led / time bound</td>
</tr>
<tr>
<td>Behavioural change in older generations and online becomes permanent</td>
</tr>
<tr>
<td>Visit stores when offline is more convenient, seek cleanliness certified or trusted stores</td>
</tr>
<tr>
<td>Seek new individual and digital retail experience</td>
</tr>
</tbody>
</table>

**Source:** EY analysis


- 60% of consumers who visited local retail stores during 25-26 March 2020 claimed to buy nearly what they needed.
- Increase in use of online platforms that offer health, entertainment, upskilling and socializing options.
- Increase in penetration of digital channels for shopping.
- Increase in use of online platforms that offer health, entertainment, upskilling and socializing options.
- Rise in privacy concerns.
- Blend online, AR/VR gaming with in-person and outdoor entertainment activities.
The changed consumer behavior brought on by the crisis will also impact speed of recovery of retail categories during the “next” phase.

### Speed of recovery of key retail categories in India

It is still early days to predict when different retail categories will bounce back from the crisis. However, evaluating the recovery pattern of the retail industry in previous crises like SARS and the Great Recession, and of China today as it recovers from COVID-19 crisis, one may point to what might lie ahead both for the sector and individual product categories in India.

In both the previous crises, there was a phase when the industry was highly impacted followed by recovery and stabilization. However, timing and course of each phase differed.

### Recovery pattern during past crises

**Year-on-year growth in retail sales (%)**

#### SARS in China (2003-2004)

![Graph showing year-on-year growth in retail sales for SARS in China (2003-2004)]


![Graph showing year-on-year growth in retail sales for US Recession (2007-2009)]

**COVID-19 in China (Dec-Feb 2020)**

![Graph showing year-on-year growth in retail sales for COVID-19 in China (Dec-Feb 2020)]

### Crises takeaways for retail industry

#### Resilience during the crisis
1. Daily necessities like food and beverages were largely stable as compared to apparel and luxury
2. Adoption of online shopping as consumers remained indoors. Alibaba, primarily a B2B platform, launched Taobao, a consumer-facing shopping site in July 2003, to reach Chinese consumers in self-quarantine

#### Recovery after the crisis
1. Products which were in high demand during the crisis saw decline in demand due to stockpiling. Sales of disinfectants fell by 29% in 2004 vs 2003
2. Health and nutrition categories grew rapidly. In 2004, yogurt registered 40% y-o-y growth in sales driven by higher demand for more nutritious yogurts. Non-essential goods like apparel, footwear and luxury bounced back quickly
3. Continued adoption of e-commerce. Alibaba’s Taobao surpassed eBay-backed EachNet within 2 years of its launch in 2003, to eventually become one of the world’s largest e-commerce platforms

#### Key takeaways during and after the COVID-19 crisis
1. Traditional retailers embraced e-commerce as a recovery strategy as it was a quick way to increase productivity, slash costs, and increase competitive advantage
2. Demand for non-essentials (apparel, consumer electronics/appliances, furniture and luxury goods) picked up only after December 2009
3. Private labels and discounts continued to gain market share. In 2009, Walmart re-launched its Great Value private brand in the US to appeal to even more cash strapped consumers
4. Retailers with a stronger value-based proposition witnessed growth. In 2008, Walmart saw 3.3% growth in same store sales, vs. 2.6% decline for target
5. Food, beverage and personal care remained stable as consumers prioritized spend on essentials and home consumption
6. Non-essential goods such as apparel, electronics, jewellery and furniture were worst affected as consumers started to save more. In Nov 2018, Saks Fifth Avenue slashed prices by 70% on designer clothes taking a hit on margins
7. Foodservice impacted (lower degree than non-essentials) as consumers restricted excess dining. After reporting 5% decline in same-store sales in the US in 2007, Starbucks decided to shut 600 stores in early 2008
8. Retailers with a stronger value-based proposition witnessed growth. In 2008, Walmart saw 3.3% growth in same store sales, vs. 2.6% decline for target

1. Staples like grain, oil and other food products continued to grow, mainly due to stockpiling
2. Discretionary categories such as jewelry, furniture, apparel and consumer electronics suffered the most
3. Retailers starting to see long queues as consumers are shopping-starved. IKEA, which opened three of its Beijing stores on 8 March, saw high footfall as it implemented new social distancing rules such as only four people per elevator, etc.
4. E-tailers such as JD.com are witnessing a shift from buying daily necessities and indoor fitness equipment to buying clothing, cosmetics and travel accessories
5. Greater willingness to spend on experiences. 82% of more than 800 consumers surveyed in mid-March reiterate to spend more on travel and fine dining
Moving towards a resilient retail sector post Covid-19

The most important lesson from the above crises is that the period of a crisis has the biggest impact on retail driven by how permanent the consumer buying behavior is likely to be. A long period of crisis has a deep impact on consumer buying behavior. Consumers just clamp down on non-essential purchases, trade down and recovery takes a lot of time. It means that retailers must accept that much of these behaviors would become permanent and they would need to brace for a big change in their operating model. On the other hand, if the crises is resolved quickly, the behavior change is less permanent and sometimes consumers might just go back to splurging once they are back shopping.

In both the crises, food and beverage witnessed stable recovery when the crisis ended but rebound for discretionary categories such as apparel took time after recession while it happened quickly after SARS owing release of pent up demand.

We believe that similar recovery patterns will emerge in India, depending upon the period for which the crisis lasts. As COVID-19 is likely to impact consumer spending in the medium term and increase online consumption, categories that are more essential, affordable and with higher online penetration are expected to recover faster.

### Diverging outlook across retail categories in India

1. Personal care, food and beverage, and home care are expected to recover faster as compared to others primarily as these products are essential to survival and will be consumed irrespective of whether an individual stays at home or not.
2. Furniture, electronics and appliances are expected to recover relatively slowly as Indian consumers are expected to postpone their spend on discretionary products in near term.
3. Indian consumers, including HNIs, will postpone consumption of luxury goods in near term, but with slight recovery during festivals like Diwali and the upcoming wedding season. Jewelry purchases are expected to decline by 30% in 2020.
4. Although key attributes of various retail categories cannot be altered (at least in near-term), retailers of hard-hit categories could take steps around their product assortment and payment methods to encourage consumers to make purchases.

---

**Change in retail sales of consumer goods in China during COVID-19, by category, %**

<table>
<thead>
<tr>
<th>Category</th>
<th>Dec-19</th>
<th>Jan and Feb-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold, silver and jewelry</td>
<td>-41</td>
<td>10</td>
</tr>
<tr>
<td>Furniture</td>
<td>-34</td>
<td></td>
</tr>
<tr>
<td>Clothing and shoes</td>
<td>-31</td>
<td>-7</td>
</tr>
<tr>
<td>Appliances and consumer electronics</td>
<td>-30</td>
<td>3</td>
</tr>
<tr>
<td>Alcohol and tobacco</td>
<td>-16</td>
<td></td>
</tr>
<tr>
<td>Cosmetics</td>
<td>-14</td>
<td></td>
</tr>
<tr>
<td>Daily necessities</td>
<td>-7</td>
<td></td>
</tr>
<tr>
<td>Beverages</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>Grain, oil and food products</td>
<td>10</td>
<td></td>
</tr>
</tbody>
</table>

Source: EY analysis, industry news
To mitigate the disruption caused due to the COVID-19 crisis, Indian retailers will need to devise strategies for the “now”, “next” and “beyond”. The immediate focus of retailers should be to keep the mission critical business operations running while simultaneously keeping the large workforce deployed by them motivated by showing empathy. As retailers react to fluidity of the “now” they also need to build resilience for the “next” when demand starts getting restored and think “beyond”. They should map a strategic journey to financial resilience at the same time plan for longer-term implications on their operating model owing to a shift in external environment. Speed and agility will be key levers of success and retailers will need to adopt a FASTER approach both to navigate the crisis “now” and to plan for the “next” and “beyond”.

**F: Frugal in finance**

With dwindling revenues for most categories and pending rental, salary, and interest payments, retailers across the board in India will face the heat when it comes to financial management. Consumer goods and retail sector interest liability to NBFCs and scheduled commercial banks as per RBI amounts to INR4,635 crores per month¹. At this juncture, it will become critical for retailers to focus on optimizing cost so that they can maintain enough cash and margin buffer to help them survive in the medium and long term. Key retailers including food service providers such as McDonald’s and Reliance Retail have invoked force majeure clause and requested mall-owners for waiver of rentals up till May amid lockdown². Post return to pre-crisis levels, retailers may assess further cost cuts which may be required to ensure profitable growth.

**A: Agile in thinking**

Given the uncertainty around the crisis it becomes imperative for retailers to have a cross-functional swift response team to handle any event that may follow. They must be flexible and adaptable to alter operating models and product assortment to meet the requirement that is most critical at the given point in time. For example, McDonald’s has started delivering grocery via drive-through outlets in Australia³ and Subway restaurants in US are turning into makeshift grocery stores selling restaurant ingredients⁴. Ecosystem collaboration will act as a key winning factor for players. For example, Flipkart has partnered with Spencer’s Retail for hyperlocal delivery of essentials⁵; Big Basket and Spencer’s Retail have partnered with Uber⁶; Marico has partnered with Zomato and Swiggy to deliver its range of oats and cooking oils⁷; Domino’s has partnered with ITC Foods to deliver groceries⁸; and Grofers and Spencer’s Retail are sending own fleets of trucks to bring provisions from distribution centres (DCs) of FMCG companies⁹.

**S: Spruced up in supply chain**

Retailers will need to repurpose their supply chain to meet demand fluctuations within their categories amidst supply constraints. They must develop capability to plan inventory and logistics across stores in a highly dynamic way till business returns to normalcy. Digitization will help in reimagining company operations and meeting consumer demand for rapid fulfilment as market moves to more omnichannel and delivery-based models. Modern retailers in India like Big Bazaar are launching doorstep delivery services¹⁰ while kirana stores are taking orders via WhatsApp or partnership with digital players¹¹. US retailers such as Kohl’s, Best Buy, and Dick’s Sporting Goods have introduced curbside pickup¹². Retailers would also need to carefully evaluate their sources of supply and their distribution network to manage future crises better.

**T: Tactful in talent management**

Continuous leadership connect with employees, especially frontline staff, around their health and financial well-being during this time will generate a sense of trust that the organization cares. This becomes critical given that the Indian retail sector contributes to almost 8% of the country’s employment¹³. Retailers must also be swift in redeploying talent to other channels basis demand, as restaurants in China shared workforce with Hema, Alibaba’s supermarket chain to serve need for delivery; and Chinese cosmetics company Lin Qingxuan redeployed 100+ beauty advisors from its shut stores during COVID-19 to become online influencers who leveraged WeChat to drive sales¹⁴. This is also the time to rethink workforce models and institutionalize digital ways of working for the future.
Retailers need to ensure that they continue their communication with customers throughout the crisis period. They need to build trust in consumers’ mind that adequate steps will be taken to ensure health and safety of consumers visiting their stores. For example, Dmart and Reliance Fresh are allowing only 10-40 customers in their stores at a time and are conducting customer temperature checks. They must also take steps to regain customer loyalty when normalcy restores as consumer behaviors may have changed during the crisis period.

The crisis has already brought a heightened level of regulatory scrutiny and passing of multiple directives by local, state and central government to ensure public health and safety. While this can be quite consuming for any retailer (in terms of resources) to follow all the directives, it will be essential for them to cooperate with the regulatory authorities all along when lockdown is lifted in stages. It will lend a positive image to their brand. Retailers must collaborate and work as part of a larger ecosystem, to follow all the directives, it will be essential for them to cooperate with the regulatory authorities all along when lockdown is lifted in stages. It will lend a positive image to their brand. Retailers must collaborate and work as part of a larger ecosystem, supporting the government in designing public policies aligned to the society’s new needs during these times. For example, IKEA has collaborated with the Telangana government and converted a sports hostel in Hyderabad, into a 200-bed quarantine center.

### Key retailer actions

#### Frugal in finance

- Variable/non-essential expenditure cuts/deferral (marketing, travel)
- Renegotiate payment terms with vendors and business partners including TOVs, credit terms, advances, rentals, and lease
- Reconsider workforce payment (bonus, promotion for top management); reduced hours/rotational shifts
- Re-evaluate buy plans and communicate changes to suppliers, such as spring summer collection in apparel spread over longer period and buying of autumn winter put on hold
- Deploy different cross-functional teams for rapid response - one, to anticipate, educate the organization and plan response for risks and another - to handle on-the-ground execution in crisis situations
- Increase collaboration within the ecosystem and adjacent industries (modern retailers partnering with unorganized/online retailers to offload inventory; retailers incl. food service tying up with platforms/delivery players; retailers adopting reverse supply-chain mechanism)
- Consider asset repurposing – reinvent some stores as micro-fulfilment centres for online or click and collect centres

#### Agile in thinking

- Continue to cut expenditure without hurting growth
- Consolidate/shut underperforming assets (stores, warehouses)
- Reconsider capital expenditure (new stores and refurbishment)
- Review consignment branded and private label stock for each store individually in non-essential retail. Promote inventory sharing amongst stores through common inventory platform
- Evaluate capital raising/restructuring for profitable growth
- Identify opportunities for M&A deals with economic value
- Build swifter crisis management capabilities into corporate governance structure to support different functional teams till business returns to normalcy and to mitigate future crises
- Make ecosystem collaborations the new normal
- Check viability of repurposed assets - returning to original or continuing in current state
- Assess growth in alternate revenue streams and extend them further if they continue to fuel growth

#### Effective in customer retention

- Bolster e-commerce, subscription, home or curb-side delivery to directly reach consumer
- Diversify supply chains - alternate sourcing locations to mitigate risk
- Consider developing a smart logistics capability to enable making quick adjustment in sources and supply (e.g. in case a major distribution centre (DC) located in COVID hotspot)
- Evaluate part of warehouses that can be automated to reduce labor and provide them flexibility
- Spruce up in supply chain

#### Responsible in regulatory and legal compliance

- Ensure employee safety through health checks of staff at offices, stores and DCs and mandating use of sanitizers
- Explore flexible and remote working capabilities
- Extend financial support to frontline workers
- Redeploy talent to alternate activities (such as, temporary staffing at stores from restaurants or closed workplaces and offline retailers reallocating talent to online channel)
- Constant communication with customer through app/SMS on service, availability, store timings, and hygiene measures to portray image of a responsible brand
- Realign store space to implement social distancing and increase hygiene measures (sanitizers, digital displays to inform steps undertaken)
- Cater opening hours to elderly and vulnerable consumers
- Tactful in talent management

- Plan for a new normal regulatory landscape
- Strengthen business to government collaboration to better manage future crises
- Ensure compliance to regulatory changes - stores should have adequate display of directives laid out by government that need to be followed by employees and customers
- Collaborate with respective government authorities by providing infrastructure, funds, training and any other kind of support

Source: EY analysis
With the COVID-19 outbreak, which is continuously evolving, nobody can predict with certainty the material impact of this crisis on the sector. The actual impact and rebound will depend on the period of the crisis and the resulting extent of behavior change. But what is certain is that it will test all retailers and the ones who will be financially strong, agile in response, and effective collaborators will emerge as winners.

Unorganized retail and local kirana appear to be the winners in the current situation. This paves the way for retailing to become even more localized in the future. Online retail will continue to become stronger. In many segments the crisis will drive consolidation and the retail industry will have its own share of fallout (smaller organized or financially struggling retailers will have difficulty in surviving this period) and few strong retailers with a differentiated value proposition will emerge stronger. Retailers will be forced to think what their core is as they enter areas never ventured before just to stay afloat during the current crisis. Going forward, some of these peripheries may become their core. After demonetization, COVID-19 crisis will act as another push for digital payments in India with public avoiding cash transactions out of fear or for convenience.

Above all, this will be a reminder to businesses that such an unprecedented crisis can happen anytime and if businesses want to continue to serve their customers during a period of disruption, they will need to be proactive in their planning. Now is the time for retail players to get control of the current crisis and invest in the build-out of a more resilient organization.

Conclusion – A new retail landscape
Bibliography

1. “Coronavirus impact: Jobs take a hit, Indian retailers see revenue slide”, Business Today, accessed 14 April 2020
3. “If lockdown continues till June, 30% of retail stores will close down: RAI”, The Economic Times, accessed 8 April 2020
4. “If lockdown continues till June, 30% of retail stores will close down: RAI”, The Economic Times, accessed 8 April 2020
15. “Can ‘revenge spending’ save luxury brands in China as shoppers emerge from coronavirus lockdown?”, SCMP.com, accessed 15 April 2020
17. EY analysis
19. “McDonald's pivots into grocery basics”, Inside Retail, accessed 10 April 2020
20. “Subway to sell groceries during coronavirus pandemic”, accessed 14 April 2020
22. “Uber Ties Up with Big Basket, Flipkart and Spencer’s To Make Deliveries in India”, OfficeChat, accessed 10 April 2020
23. “Marco’s and TC Foods partner to deliver groceries”, accessed 14 April 2020
25. “Big Bazaar enters doorstep delivery space in India”, Hindustan Times, accessed 10 April 2020
27. “Curbside pickup is growing due to coronavirus: Kohl’s, Best Buy, Dick’s Sporting Goods add option”, USA Today, accessed 14 April 2020
30. “Retailers roll out steps to maintain social distancing, sanitization at stores”, The Economic Times, accessed 13 April 2020
Moving towards a resilient retail sector post Covid-19

Ahmedabad
22nd Floor, B Wing, Privilon, Ambli BRT Road, Behind Iskon Temple, Off SG Highway, Ahmedabad - 380 015
Tel: + 91 79 6608 3800

Bengaluru
6th, 12th & 13th floor
"UB City", Canberra Block No.24 Vittal Mallya Road
Bengaluru - 560 001
Tel: + 91 80 6727 5000

Ground Floor, ‘A’ wing
Divyasree Chambers
# 11, O’Saughnessy Road
Langford Gardens
Bengaluru - 560 025
Tel: + 91 80 6727 5000

Chandigarh
Elante offices, Unit No. B-613 & 614
6th Floor, Plot No- 178-178A,
Industrial & Business Park, Phase-I,
Chandigarh - 160002
Tel +91 172 6717800

Chennai
Tidel Park, 6th & 7th Floor
A Block, No.4, Rajiv Gandhi Salai
Taramani, Chennai - 600 113
Tel: + 91 44 6654 8100

Delhi NCR
Golf View Corporate Tower B
Sector 42, Sector Road
Gurgaon - 122 002
Tel: + 91 124 443 4000

3rd & 6th Floor, Worldmark-1
IOT Airport Hospitality District
Aero City, New Delhi - 110 037
Tel: + 91 11 4731 8000

4th & 5th Floor, Plot No 2B
Tower 2, Sector 126
Noida - 201 304
Gautam Budh Nagar, U.P.
Tel: + 91 120 671 7000

Hyderabad
THE SKYVIEW 10
18th Floor, “Zone A”
Survey No 83/1, Raidurgam
Hyderabad - 500032
Tel: + 91 40 6736 2000

Jamshedpur
1st Floor, Shanthiketan Building
Holding No. 1, SB Shop Area
Bistupur, Jamshedpur - 831 001
Tel: + 91 657 663 1000

Kochi
9th Floor, ABAD Nucleus
NH-49, Maradu PO
Kochi - 682 304
Tel: + 91 484 433 4000

Kolkata
22 Camac Street
3rd Floor, Block ‘C’
Kolkata - 700 016
Tel: + 91 33 6615 3400

Mumbai
14th Floor, The Ruby
29 Senapati Bapat Marg
Dadar (W), Mumbai - 400 028
Tel: + 91 22 6192 0000

5th Floor, Block B-2
Nirling Knowledge Park
Off, Western Express Highway
Goregaon (E)
Mumbai - 400 063
Tel: + 91 22 6192 0000

Pune
C-401, 4th floor
Panchshil Tech Park
Yerwada
(Near Don Bosco School)
Pune - 411 006
Tel: + 91 20 4912 6000

Our offices