

The Outside View

Consumers Will Shop Again

Antony Karabus on how retailers can navigate the new normal. BY ANTONY KARABUS

Consumers are focused on essentials now, but will eventually come back to discretionary purchases.



With malls empty, stores shuttered, and consumers sequestered within the safety of their homes, we can't help but wonder: How long will retail remain on hold to counter the spread of COVID-19 and what will the sector look like when they finally do reopen?

The most difficult question might be: Which retailers will make a comeback and which will not survive?

Leveraging 30 years of experience advising retailers and having witnessed many ups and downs – though none as drastic as the COVID-19 situation – I offer the following predictions on the return of consumer demand and the changes we should anticipate. I also suggest actions that retailers can take to mitigate the new normal in the near to mid term.

Digital Shift Will See Acceleration

While the retail sector experienced a significant sales shift from brick-and-mortar to digital over the past 10-plus years, that relative rate of growth (still 10-plus times above the brick-and-mortar sales growth) had actually been decelerating over the last three years as the digital channel began to mature. Last year, brick-and-mortar sales still represented between 70 and 85 percent of total retail sales, depending on the sector. That reality simply affirms the fact that most people still prefer to shop in-store where they can appreciate the touch, feel and interaction of the store experience.

I believe the pandemic will accelerate the trajectory of the digital growth, returning us back to the 30-plus percent growth rate when digital channels first

emerged as a meaningful factor in the retail sector.

We will also see an accelerated shift from traditional hybrid brick-and-mortar/digital retailers to online-only merchants such as Amazon, as well as increased market share by retailers selling “essential” items such as Target, Walmart and those operating in the grocery, drug, home improvement, dollar and certain essential service-related retail sectors. Those shifts will put added pressure on chains selling “discretionary” items.

While I believe consumers will return to brick-and-mortar stores selling discretionary items, they will do so at a slower rate until they feel more secure. The record rise in unemployment levels today is over four times the record high seen in 1982, which, together with the resultant threat of large-scale bankruptcies, is promoting tremendous economic uncertainty among consumers. We are hopeful that the large-scale, expanded unemployment benefits by government will mitigate some of these insecurities.

Where a consumer lands on the spectrum will dictate the shape of the demand curve.

While some speculated in early March that we'll experience a V-shaped demand curve, bouncing back to the way it was before, I foresee a different outcome. I feel that consumer demand will be somewhere between a U- and an L-shaped curve, as I predict the upward slope of the demand curve will be a lot shallower on the way back up than the decline was on its way down.

For each retailer, the upward slope of that curve will be totally dependent on the nature of the products they sell – and the relative feeling of economic insecurity of the socio-economic audience it serves.

Two main issues will affect the consumer demand curve: where consumers lie along the wealth spectrum and the essential versus discretionary nature of items being purchased. For essentials, it's a V-demand curve. For discretionary items, I expect a slow return, with the best case being a U-shaped demand curve and a longer period before the upward curve starts rising again.

In order to forecast what their year after reopening will look like, every retailer must determine where their customers fall along the socio-economic spectrum. In the past, wealthy consumers shopped without hesitation thanks to substantial disposable income and overall feelings of wealth, feelings largely contingent on a booming stock and real estate market and large annual bonuses in a growing economy. But, with large stock market declines and the likely vanishing of bonuses for at least a year, even the more affluent consumers will likely be more cautious.

So how will the current situation impact this demographic? My prediction is that consumers with higher net worth and disposable income will continue to shop for discretionary items. Still, they will likely reduce that spending until the stock market and other asset values rebound.

Due to financial instabilities, including sharply rising unemployment, the lower-to-mid income shopper will be too concerned with how they'll pay their rent/mortgage to spend much on discretionary items. For the next while, their purchases will be focused on the essentials, with survival and stability the primary concern.

Being Proactive Will Help Retailers Mitigate the New Landscape

The impact of the pandemic will no doubt be detrimental for numerous retailers and will accelerate the need for restructuring or even creditor protection. Keep in mind, many retailers have only five to 10 months of liquidity now. If they are going to survive long term, it's critical that retailers adopt important steps once consumers return. Only by being proactive will they be able to effectively tackle the many challenges they will undoubtedly face.

For example, what retailers have in stock today are spring and summer goods. By the time consumers come back, however, we'll be heading toward back-to-school/college and the fall season. Retailers will need to take a hard look at their inventory and determine which items are basics that can be put away for next year and which items will need to be liquidated or disposed of for being seasonally inappropriate.

Of course, retailers will need to find ways to ease the feelings of nervousness among consumers who will be wary about shopping in large crowds and will need help to feel safe in stores again.

I recommend five steps for retailers to safeguard their businesses:

1. Closely manage cash flow. Liquidity will be the most important determinant of a retailer's ability to survive until this

crisis is over, and to possibly even thrive long-term. Prioritize all payments carefully in relative importance to long-term sustainability. Develop robust, rolling 13-week cash flow forecasts and minimize surprises for your lenders, bankers and suppliers.

2. Maintain regular communication with your staff and outside stakeholders, including employees, lenders, suppliers and landlords. As with every crisis, this one will end, too. What's essential today is to communicate in a way that supports the future viability once it is over.

3. Carefully manage your inventory risk. The closer your inventory comes to “consumer essentials” or “all-year-round basic products,” the less markdown and inventory risk you have. If much of what you sell is seasonal fashion or discretionary, there's a greater likelihood that you will be facing a significant margin risk. Develop the right disposition strategies and tactics to minimize the pain and to help generate cash flow to assist with your liquidity. Determine what purchase orders to cancel from what suppliers by considering the relative importance of those suppliers to your future after the crisis.

4. Re-prioritize capital spending into essential initiatives to “keep the lights on,” initiatives that will drive future profitability and working capital and lastly others that are entirely discretionary without clear payback. The initiatives without strategic or financial payback will likely be deferred.

5. Strengthen your e-commerce and related fulfillment capabilities. A robust e-commerce capability, both now and after the coronavirus crisis ends, will position you well for the restart of retail.

The effects of COVID-19 will be long-lasting on both our professional and personal lives. I hope these recommendations for operating in this complex time will provide retailers with a clearer picture of what to expect and when. And, by taking these important steps, retailers will be able to pick up the pieces and move forward once the devastation is complete.



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