Summary Of Relevant Mckinsey Articles

The COVID-19 pandemic is posing staggering health and humanitarian challenges. As the crisis evolves, companies must act on multiple fronts to protect their employees, customers, supply chains, and financial performance. Retail and consumer-goods sectors have been particularly affected, with frontline employees directly at risk and companies struggling with demand that is either rapidly evaporating or surging well past the available supply.

Profit and loss headwinds

Top line	−	Contraction for discretionary categories; return to normal varies based on economic response and virus containment
Pricing and promotions	−	Promotional intensity fueled by declines in consumer sentiment and spend
Shipping and handling	−	Accelerated shift to online and lower-margin fulfillment models
Labor costs	−	Swing from historically low to high unemployment, although wages likely to continue to rise
Occupancy	− +	Store closures and bankruptcies likely to put continued pressure on lease rates and terms, but deleveraging could continue as sales shift online

Profit and loss tailwinds

Top line	+	Demand surge in some nondiscretionary categories; return to normal varies based on economic response and virus containment

[1] Earnings before interest, taxes, depreciation, and amortization.

Consumers have altered their shopping and buying behavior during the pandemic. For one, loss of income and declining consumer confidence have driven decreases in discretionary spending.

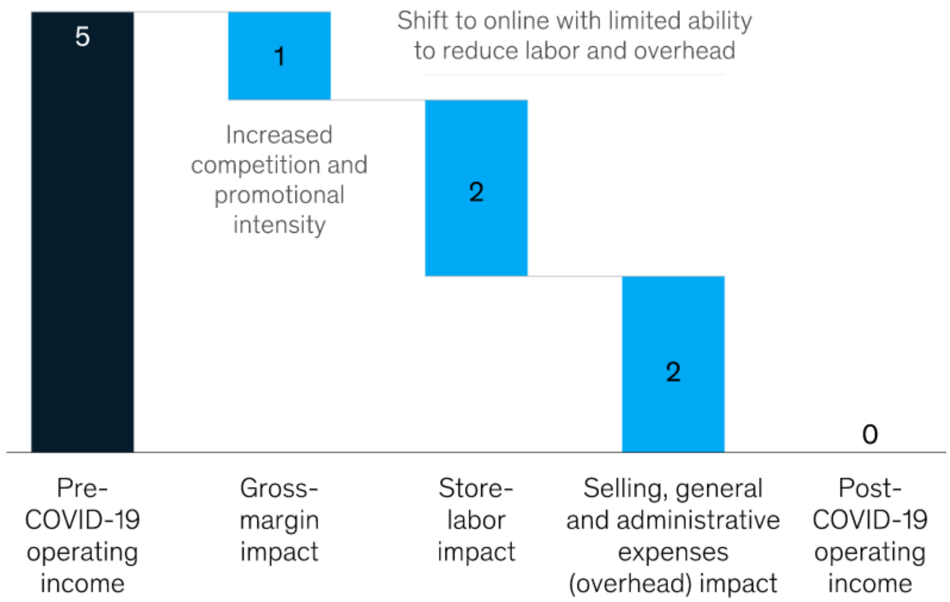
Top 3 capabilities considered most important in the next 12–18 months[1]

E-commerce or omnichannel	Upgraded online-merchandising capability, strong social-commerce presence and ability to interact with customers when/where/how they want, differentiated channel strategy, cross-channel inventory and customer management
Digital, data, and analytics	Advanced analytics and machine learning, big-data management, social media listening and response; personalized digital marketing and loyalty
Flexible supply chain	Omni–supply chain with ability to route product in 2-speed model, last-mile delivery, "next product to make" adaptability, near-shoring; partner terms

A potentially longer-lasting behavioral change is the accelerated adoption of e-commerce. Even before the pandemic, consumers were increasingly browsing and buying online. In the recovery period, retailers could see spikes in online shopping even in categories that in the past were primarily store-based (such as makeup).

These trends will shape the industry's next normal and could have profound implications on a retailer's P&L. Store sales could plummet, fiercer competition and increased operational complexity due to workforce disruptions could contribute to margin compression, and the migration of sales from stores to e-commerce (typically a lower-margin channel for retailers) could further hurt profitability. To illustrate: if online penetration increases by ten percentage points and gross margin falls by one percentage point, driven by increased pricing pressure, retailers could expect store profitability to decline by up to five percentage points (exhibit). A hit to profitability of this magnitude could push a significant number of brick-and-mortar stores into loss-making territory.

Post-COVID-19 store profitability,[1] % of revenue, illustrative



[1]Illustrates impact of a ten-percentage-point increase in online penetration.

To survive and thrive in the post-coronavirus world, apparel and specialty stores must fundamentally change how they operate on both sides of the P&L.

Unless stores offer consumers a compelling value proposition, store traffic—which was already thinning in pre-coronavirus times—will slow to a trickle. Consumers are now accustomed to staying home for weeks at a time and buying a wide range of products online. In the future, they won’t visit stores unless retailers give them good reason to. Retailers must therefore gain a deep and up-to-date understanding of customer preferences, envision a new role for their stores in light of these preferences, and execute surgical changes to store formats and in-store customer experience.

During the crisis, physical distancing and stay-at-home mandates compelled retailers large and small to launch omnichannel initiatives, with even mom-and-pop stores offering contactless curbside pickup. In-store omnichannel integration will become “table stakes” in the next normal.

- *Redefine the role of the store.* More than ever, stores need to offer unique customer experiences instead of simply serving as transactional venues. To better cater to changing customer preferences in the next normal, stores should seek to deliver a superior product-discovery experience and provide access to exclusive merchandise (for example, through “in store only” and “in store first” product launches).
- *Offer omnichannel fulfillment basics.* To meet rising customer demand for contactless fulfillment options, retailers should introduce curbside pickup and “buy online, pick up in store” (BOPIS) features and continuously improve the execution of these services.
- *Build an omnichannel staff.* Retailers should invest in training and equipping store associates to engage with customers online, so that store staff can guide customers at the start of the product-discovery journey and interact with them postpurchase. Retailers with a truly omnichannel mindset could also reward store associates for influencing online sales in local zip codes.
- *Enable personalization of in-store touchpoints.* If store associates have access to customer data generated both offline and online (for example, data on loyalty and purchase behavior across channels), they can tailor their customer interactions accordingly. Even customers that start and end their journeys online can then receive personalized attention in stores.

Retailers may find that they need to deliver 20 to 30 percent improvement in store productivity to compensate for the channel shift away from physical stores. To achieve this, they will need to relentlessly simplify store operations and rebalance the allocation of store costs to support the increasing volume of in-store omnichannel activities.

- *Shift complexity upstream.* To support stores with reduced postcrisis staffing levels, store-operations leaders should collaborate with the merchandising function to reset store-replenishment frequency and minimum stock levels to reflect postcrisis sales and traffic in stores. In addition, distribution and sourcing teams can potentially find ways to shift certain tasks (such as price tagging and labeling) away from stores and to distribution centers or, where possible, vendor locations.’’
- *Rapidly digitize and automate non-value-added work.* Retailers should digitize and automate in-store activities, where possible, to free up associates for higher-value work. This includes automating labor scheduling, expanding the use of self-checkout and mobile checkout, and providing remote-management tools for store and field managers.
- *mprove omnichannel touchpoints.* Retailers might consider, among other options, dedicating staffing for ship from store, redesigning BOPIS processes, improving inventory management, and working with the supply-chain function to reduce the end-to-end cost of fulfilling orders.
- *Introduce contactless self-serve features for omnichannel transactions.* Over the past few weeks, consumers have increased their adoption of contactless services in retail sectors such as grocery. There’s a good chance they will continue to demand similar experiences in other brick-and-mortar settings even after the pandemic. Retailers should consider providing contactless self-serve options for online order pickups, price checks, and returns management. (We’ve found, for example, that 60 to 70 percent of the typical retailer’s returns process can be digitized.

To better understand a store’s true economic value, a retailer should modify the store P&L to include its e-commerce halo—for example, by ensuring that the store “gets credit” for e-commerce sales in the local zip code. A forward-looking omnichannel view of each store’s performance should incorporate postcrisis traffic projections and the retailer’s envisioned role for the store.

A retailer can then develop a future-state vision for its store network. Outcomes from this exercise might include accelerating store-closure plans, particularly for stores with a pending exit opportunity; choosing not to reopen stores with expected low productivity; accelerating rent negotiations and footprint rationalization for stores that are essential but underperforming; and adding network nodes (either stores or distribution centers) in areas where the retailer lacks omnichannel coverage.

The COVID-19 crisis has naturally shifted consumers toward digital shopping and engagement channels. Yet the findings show uneven rates of acceleration across various types of online channels. Responses suggest that multicategory online marketplaces could be poised to gain the most momentum in the coming months, with the largest increase in net usage intent of any channels tested in the survey. At the same time, respondents also expressed the desire to return to physical stores—particularly to shop for apparel.

Survey responses show that shoppers appreciate the “touch and feel experience” of physical stores. As stores enable product interaction while also generating traffic for e-commerce sales, the traditional way of looking at individual-store profit-and-loss statements might need to change.

This entails reimagining end-to-end consumer engagement on digital channels and seamlessly linking online and offline experiences to radically accelerate in-store omnichannel integration. Companies that are both digital and offline, rather than one or the other, will be better positioned in the days ahead—especially if they can use both to create a mutually reinforcing customer ecosystem.

As shoppers look to purchase items that meet their criteria for value, it will be paramount for businesses to be able to immediately communicate to visitors to an online channel or store how their products fulfill these criteria. This entails rethinking which “star products” to highlight, as well as reconsidering overall product assortment and promotional calendars to effectively lower the customer hurdle by highlighting relevant products and offers, and by offering accessible entry price points. As we saw earlier, however, the concept of “value” can differ significantly by segment. Hence, executing this well requires a strong understanding of customer segmentation that enables a personalized approach.

Finally, as consumers search for the best deals—and retailers face overstock from lockdowns—companies can benefit from being nimble amid a heightened promotional environment. Doing so may require adopting a rapid “test and learn” approach so they can quickly pivot to determine the most compelling offers for various customer segments.

In our research, we saw consumers interacting with multiple channels and touchpoints, such as official brand websites, social commerce, online platforms, exclusive-brand stores, and multi brand stores. As consumers use more channels, it is important for companies to ensure that their experiences at each touchpoint are consistent, generate delight, and further enhance companies’ understanding of consumers. This requires brands and companies to not only be open to shifting their marketing messages but also investing in analytics capabilities and reallocating financial and talent resources as needed.

In previous consumer-research efforts, we have seen that customers and employees appreciate brands that exhibit a social purpose and communicate honestly about how the crisis has affected their service levels and overall business. As companies prepare for what comes next, they may need to rethink and adjust their marketing tone and message to reflect consumers’ new reality, given the social context and consumption guilt that could affect some purchases.

Against this backdrop, retailers will need to be deliberate about influencing consumers’ value perception. After all, for many US consumers, affordability will be the single most important factor informing purchase decisions.

Take grocery shopping: in the early days of the pandemic, consumers loaded their pantries, made fewer shopping trips, visited fewer stores each week, and targeted their spending on essentials. Consumers have also tried new retailers and new brands during the crisis, possibly shifting the loyalty dynamics within the retail sector

Digital and alternative fulfillment models (such as curbside pickup), which some retailers previously viewed as experimental, suddenly became must-haves.

Since consumers will increasingly look for value and affordability, retailers must offer a convincing value message to succeed in the next normal. They will, of course, still have the classic value communications, pricing, and promotional tools at their disposal, but they must deploy these tools in new ways. Every retailer will also need to reassess its entire value strategy—reevaluating both products and services—to ensure alignment with consumers' new need states.

While the pandemic's peak may be behind us, the shape of the recovery is still difficult to predict. Agility—the ability to respond rapidly to changes in consumer sentiment and value perception—will be crucial. As part of building agility, you will need to monitor carefully chosen metrics that are reliable indicators of how consumers are thinking about price and value, such as e-commerce penetration, basket size, and private-label penetration

Update your value communication for the postcrisis context

Given the shifts in consumer behavior—more cooking at home, larger baskets, less cross-shopping across retailers—each shopping occasion, for loyal and new customers alike, takes on greater importance for retailers. Find new ways to communicate and deliver value. First, use your unique value proposition as a base for value communications, expanding beyond purely communicating price points. Highlight the areas in which you are best positioned relative to your competitors, whether that's the broadest private-label offering, the freshest produce, or the best shopping experience.

Additionally, consider launching new product offerings to serve COVID-19–related occasions. For example, advertising a single, attention-getting price for the ingredients for a family meal ("Feed the family for $15"), instead of promoting individual items, may resonate with parents who have been cooking multiple times a day for the past two months. Presenting indulgent purchases as replacements for products and services from nontraditional competitors (for instance, billing a popcorn-and-candy deal for an at-home movie night as a substitute for going to a movie theater) could be attractive to shoppers seeking affordable entertainment. Relevant and empathetic messaging that avoids tone-deaf references—such as references to fancy dinner parties or large

social events—will help consumers continue to view your stores as a trusted resource in a time of need.

As your consumer value proposition evolves, your relationships with vendors and your trade-investment decisions should evolve as well. With many annual promotional plans disrupted, choices about how to allocate funding and what new avenues to invest in (digital channels, for instance) will become more important.