

# Retail Impact of Coronavirus Continues to Mount



## *Timely Considerations to Address Stranded and Inbound Inventory*

The COVID-19 pandemic has caused severe disruption across all aspects of retail, and we are beginning to understand the full impact this will have on the industry. The US Census Bureau released sales numbers for March, and the month-over-month decrease in total retail sales was 8.7%—the largest single-month decline since the Census Bureau began tracking sales in 1992.

### **THE COVID-19 PANDEMIC HAS CAUSED SEVERE DISRUPTION ACROSS ALL ASPECTS OF RETAIL**

With the release of disastrous March sales numbers by the US Census Bureau, it is becoming frighteningly apparent how severely the COVID pandemic will impact US retailers. Sales are tanking, and impact across all operational touchpoints is wreaking havoc. Among a host of concerns, retailers are struggling with:

- **Supply Chain:** Severe interruptions in product flow at various points and the need to reassess product already on order.
- **Point-of-Sale:** Limited access to basic and out-of-season product trapped in closed stores.
- **Reopening Stores:** Uncertainty as to when “nonessential” stores can resume normal or even limited operations. What will traffic pattern ramp-up look like, and in which geographies?

As major suppliers in China and across the globe begin to return to factories and supply chains resume operations, retailers have significant implications to consider as they look to the future:

### INVENTORIES



### WORKING CAPITAL



### BALANCE SHEET



*Retailers will see both sides of the equation, with inventory buildup of nonessential product (including seasonal and fashion apparel) and shortages in essential/basic categories (e.g., grocery, OTC medical products).*

*Thoughtful management of inventory, distribution, allocation, timing, and point-of-sale with the customer, along with vendor management, will be critical to success in both the present and post-pandemic landscapes.*

#### Decisions at Point-of-Sale: Deliver Product to Customer And Manage Inventory

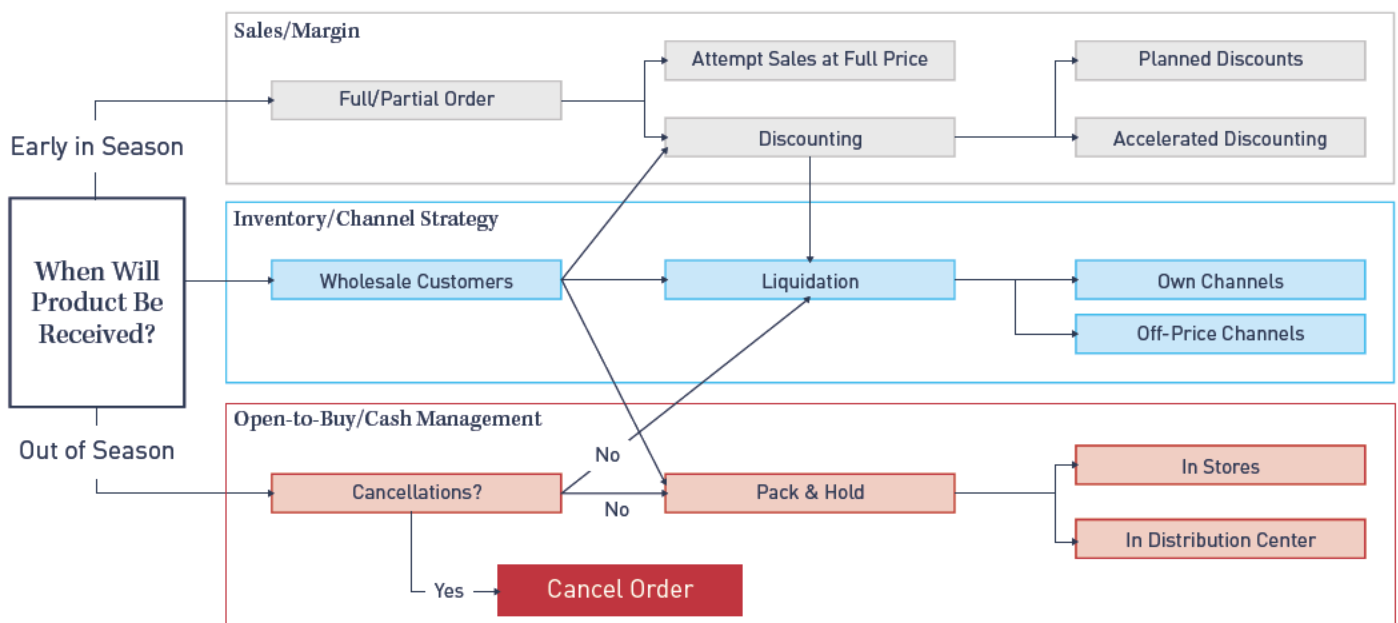
- Ship product from store
- Ship product from distribution center
- Ship from third party
- Ship from vendor
- In-store pick up

#### Decisions in Managing Existing Inventory

- Complications from vendor delays
- Partial orders and cancellations
- Attempt sales at full price
- Discount seasonal/fashion product
- Liquidate/clearance
- Pack and hold
- Buy orders for following year

### CONSIDERATIONS FOR EXISTING/INBOUND INVENTORY

Retailers face decisions that will have a critical impact on overall sustainability. All considerations must be modeled carefully across the organization to forecast implications to sales, margin, inventory, open-to-buy, and most important, cash flow.



## DELIVERY TO CUSTOMER

To reduce inventory levels during times of closed stores or reduced store hours, retailers must make key decisions and considerations regarding shipping from stores, shipping from distribution centers, or scheduling customer pickup from stores.

### Ship from Stores

- Are stores closed currently, or do they have reduced hours that impact sales and inventory turn?
- Do stores have appropriate staffing levels, systems, and processes in place currently to fill and ship customer orders from stores?
- Do stores have sufficient/excess inventory on-hand to fulfill orders; if not, is supply chain operating at a level of functionality to cover demand?
- Is there a need to clear inventory from stores to make room for newer product?
- Has the cost of shipping from store versus shipping from a distribution center (DC) been weighed against the cost of the impact of discounting or returns to DC?
- Which product is candidate for shipping from store: basics? seasonal? fashion? Are these durable or nonperishable goods?

### Ship from Distribution Center (DC)

- Does the DC have enough capacity to hold current inventory plus incoming orders?
- Is there enough planned labor to process incoming orders and ship from DC?
- Are stores capable of filling orders from their locations?
- Do stores have excess inventory that needs to be cleared from the location before filling from DC?
- How will product ship? Will there be sufficient trucking/rail/post availability? Will there be postal delays?
- Is there prioritization of goods to ship? For example, are medical supplies, grocery, and pharmaceuticals being prioritized over general retail/apparel? How will that impact our customers?

### Pickup In-Store

- Is the cost of shipping from stores prohibitive?
- Are stores operating on reduced hours? Is 'social distancing' in effect?
- Are there systems/processes in place for scheduling appointments for pickups?

The global threat from the coronavirus pandemic will eventually pass, and business operations will begin to return to some reflection of normal, but likely not until 2021. The crisis should serve as a reminder to retailers and consumer products companies that being prepared to react and rebound is an important part of critical strategic planning.

This is the time for retailers and consumer-facing companies to reassess demand generation levers as consumers adjust to post-COVID-19, reduce operational costs to meet new demand thresholds, and reset the business to survive and compete profitably.

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