

Retailers Face an Unprecedented Situation with COVID-19



Uncertainty in the retail environment requires a critical understanding of the business ecosystem to identify and manage risk surrounding inventory

The impact of COVID-19 is developing in real time, and impacts to supply chain and inventory are growing with uncertainty, as store closures are expected to continue through April and potentially into the summer.

COVID-19 PRESENTS CRITICAL CHALLENGES IN RETAIL

Retailers face an unprecedented situation with COVID-19 forcing the closure of stores for an uncertain amount of time. Basic, fashion, seasonal, and trend product is 'trapped' in stores and distribution centers, and possibly at third-party providers incurring storage costs. Product is stranded with overseas vendors and partners in various stages, from greige goods to finished product. Retailers must address critical questions and prioritize actions to weather the storm and ensure long-term viability.

KEY QUESTIONS FOR RETAIL

- When might stores reopen, in what geographies, and how quickly will customers return to make purchase decisions?
- What should the forecast be for seasonal buy plans for 2021, and what are impacts to open-to-buy?
- How constrained is cash, what actions can be taken, and how quickly?

In terms of inventory specifically, what can retailers do in reaction to what has become a uniquely challenging business environment? Our experience with retailers and consumer goods companies tells us that three critical questions (at minimum) must be addressed to identify and manage inventory risks.

Critical Inventory Questions

1. What Actions Are Being Taken to Address Inbound Inventory Buildup and Stranded Product?

- What are the commitments on greige goods at factories? What are the commitments with key partners and vendors?
- What are the needs to redirect product based on go-forward product demand with closed stores?
- What basic, fashion, seasonal, and trend product is trapped in closed stores? By geography? How do you turn it into cash?
- Is it cost effective to pull back and hold any stranded seasonal product for next year?

2. What Decisions Are Being Made Around Discounting, Allocation, Pack and Hold, Off-Site Storage, and Next-Season Buys?

- Will there be sufficient time after stores reopen to sell any seasonal product, and at what discount levels?
- What changes in product allocation need to be made? When should you hold or redirect product?
- Is there an opportunity to pack and hold any seasonal product until next year, and what are the cash implications?
 - > Is there sufficient capacity within the supply chain to hold product until next season?
 - > What additional costs are associated with holding product within our own or third-party facilities?
- What adjustments need to be made to seasonal and future buys based on anticipated trends and carryover?

3. How Are You Modeling the Impact of Decisions on Sales, Margin, P&L, Open-To-Buy, and Cash Flows?

- What is the impact to sales and margin from additional required discounts?
- Will there be any impacts and added costs to transportation due to product moves, returns, e-commerce, or storage?
- What are the impacts to next season's open-to-buy due to forecast sales trends and holding any product?
- What government programs are available that could support or ease the financial impact?
- What are the impacts to liquidity and cash flow?
- What are the impacts to the P&L?
- What are the various scenarios that need to be modeled weekly, with a range of different outcomes?

POTENTIAL RETAILER ACTIONS

Retailers are limited in what they can do during the current crisis. National-, state-, and county-mandated closures have shut down nonessential businesses. We are witnessing extended store closures across the country. Retailers are drawing down on revolving credit lines, but new financing and sale processes have come to a halt. All retailers can and should consider certain actions as part of their response to mitigate the damage and provide an avenue for long-term viability.

Actions That Companies Are Actively Considering

MINIMIZING CASH BURN

Focus on minimizing overhead costs, including immediate RIFs and discretionary spend.

TEMPORARY STORE CLOSURE

Taking stores dark and furloughing store and DC employees, in extreme cases without pay; refocus on e-commerce.

VENDOR NEGOTIATIONS

Negotiating payment plans with vendors to defer existing AP and reduce current on order.

LANDLORD CONCESSIONS

Withholding April rent and negotiating temporary relief via holidays and deferrals.

WORKING CAPITAL

Increased focus on liquidity management, including expense management, AP stretch, landlord management, and effective inventory monetization.

In the past, routine processes to model and develop a forecast were generally done independently within each functional area of the company. Typically, the change in the model was minimal on a year-to-year basis. That is no longer the case in creating a useful inventory forecast.

Retailers must understand their options when it comes to the key inventory issues and questions noted earlier, and how various actions can impact outcomes. Each potential action across all parts of the organization must be modeled centrally to provide flexibility in addressing different scenarios and outcomes. Such detailed analysis is essential in guiding management decisions regarding the best strategic options.

Keith Jelinek
Managing Director
kjelinek@thinkbrg.com
248.894.8264

Richard Maicki
Managing Director
rmaicki@thinkbrg.com
216.906.1580

Darren Morrison
Managing Director
dmorrison@thinkbrg.com
312.342.3616



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