Commercial resilience and the outlook for the retail sector

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Solutions to help the retail sector

The Covid-19 outbreak, large-scale quarantines, travel restrictions, and social-distancing measures taken by most governments is a so-called 'Black Swan' event[1]. Prior to the pandemic macro-economic conditions were sound, but now the global health crisis is leading directly to an economic crisis, as large portions of the world's economy are effectively shut down. Like most sectors of the economy, retailers face acute challenges. The nature, horizon and scale of the impact will depend on the type of goods or services offered. Retail sectors covering essential spending on food, drinks, or healthcare are expected to grow during the crisis. But at the other end of the spectrum, the motor vehicles and parts sector could be fatally weakened, just when it looks to expand with large-scale investments in electrification[2]. It's expected that in the short term the overall impact on retail will be severe and acutely challenging.

The long-term impact will largely depend on the length of the Covid-19 outbreak. If it is contained early, analysts predict a V-shaped recovery as consumers quickly resume their normal day-to-day lives. But if it extended, it may be difficult for some retailers to sustain such a prolonged shock to the system. To mitigate, governments are also stepping in by aggressively slashing lending rates, introducing payment holidays and offering sizable bailouts for impacted industries.

Online retail which is already booming will grow even more as consumers spend less time in public. The general retail market will continue to shift sales on-line. Massive gains in e-commerce delivery services for grocers and restaurants are also anticipated..

[1]https://en.wikipedia.org/wiki/Black_swan_theory
[2]https://www.theguardian.com/business/2020/mar/18/bmw-and-toyota-suspend-european-operations-coronavirus

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Retail had been on a decade-long growth spree but is likely to show contraction. The following scenarios based on the length and severity of the downturn are predicted.

Short term

- Store retailers close their doors for an undetermined period.

- Demand suffers as consumers cut non-essential spending.

- Supply chain is being disrupted although the full impacts are not yet felt[3];

- Consumers are venturing online[4].

Medium term

- Lay-offs drive unemployment rate higher, leaving the demand below its pre-Covid-19 level.

- Retailer bankruptcies spike, especially for the small and medium-sized retailers with working-capital or liquidity shortages and / or limited online presence.

- Inflation kicks in as retailers increase their price to live off the stock as the supply of products or parts starts to dry (or seems likely to collapse)[5].

Long term

- Retailers design for resilience by diversifying suppliers and moving away from a just-in-time inventory.

- Consumers have greater motivations and fewer perceived barriers to more actively switch to online shopping.

- Consumer change in behaviour fuels innovation in the shape of virtual stores[6], contact-less deliveries and so on.

[3]https://foreignpolicy.com/2020/03/04/blindsided-on-the-supply-side/
[4]http://www.sixthtone.com/news/1005303/how-covid-19-sparked-a-silver-tech-revolution-in-china
[5]https://blog.gfk.com/2020/03/when-reality-hits-covid-19-impact-on-retail/
[6]https://www.nielsen.com/us/en/insights/article/2019/augmented-retail-the-new-consumer-reality/

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Growth of digital acquisition and sales channels

Fast forward to more recent times, the SARS pandemic of 2002-2004 catalysed the meteoric growth of a then-small e-commerce company called Alibaba and helped establish it at the forefront of retail in Asia. Its growth was driven by underlying anxiety around traveling and human contact. As a result, it may now be further encouraging the rapid movement from traditional store-based selling to digitisation, opening a huge demographic tranche of new online shoppers that were previously out-of-reach.

It's a great time for organisations to strengthen their digital on-boarding and machine learning (ML) practices, as well as further invest in key online capabilities for the future. This is also a timely opportunity to look at the use of alternative data in evaluating credit and fraud risks, as it is can offer a mass of valuable insight to drives better-informed decision-making.

Fast deployment and enhancement of the digital acquisition and sales channels driven by data, models and strategies will be a key trend. Therefore, bureaux, transactional and alternative data, as well as scores built on the data sources, will be crucial elements in retailers' online growth strategies. Transition to digital will drive rapid growth in the demand for customer targeting, profiling, fraud detection and risk assessment solutions.

Update of acquisition models and strategies

Population shifts driven by the Covid-19 crisis, as well as the rapid growth of the e-commerce channels, will affect models and strategies built on historical data, prompting the need to update acquisition models, processes and shifting consumer profiles.

Modification of emerging acquisition models' cut-off strategies will be among the first critical steps retailers must take to help effectively manage the impact of the crisis on their customer base.

Focus on existing customers

Many retailers shelved new business and marketing campaigns during the height of pandemic uncertainty. Instead, it forces retailers to focus more on cross and up-sell activities geared towards their existing low-risk customers. Recession is often the right time for increased effort in active customer management and more generally more focus on customer value, relationship and retention management. In the meantime, it's anticipated there will be big shifts in existing customer behaviour, spend and credit habits. Retailers will need to understand the shifts and pre-emptively take advantage of emerging consumer behaviour. For example, store credit card limits tend to see peak usage when consumers are obliged to adapt to tougher market conditions. Ensuring limits for these revolving facilities are actively managed makes a lot of sense at this point.

Modification of behavioural and propensity models, as well as optimisation of revenues from existing low-risk customers, will be among the key trends we expect to see.

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Investment in collection capabilities

Typically, collections are likely to be the hardest hit and will be a core focus for the future, as retailers attempt to strike a balance between flexibility and collecting delayed payments to sustain returns and maintain commercial viability. Measures could range from allowing extended repayment periods, pro-active instalment holidays – underpinned by government and regulatory support - evaluating portfolio sales, to the adoption of digital late payment and collection options.

Early warning systems and triggers, collection models and strategies, digital collections as well as co-operation with debt collection agencies (DCA) will need much larger investment during a downturn.

Bridging the supply chain gap

Integrating forward-looking, customer-centric data can empower retailers to make more informed planning decisions and adjust stock quantities as needed. Additionally, with data and predictive analytics showing the likely sales outcomes based on differing price points, retailers can inform all marketing decisions to ensure they are appropriately speaking to their customers in a way that softens any price hikes.

Retailers will seek cooperation with partners who can provide insights on how demand will be affected by the price points they plan to put in place. Having the right product - right price formula can help retailers and brands achieve better outcomes based on actionable insights into customer expectations.

Operational efficiency within the organisation

Retailers should also look at their back-office processes with a view to bringing in operational efficiencies and automation. Many are expected to face increased levels of operational risk due to closure of office operations, as well as facing critical capacity issues from sickness, key supplier failures and higher resource demands in managing new digital acquisition and sales channels. Rising fraud and credit risks are also typical characteristics. Analytics could provide retailers with insights into managing the impact of a downturn. But most retailers regard the development of in-house analytics capabilities as a very expensive option. Instead, they could benefit from investment in outsourcing strategies to help provide the right mix of internal and external capabilities.

Near-shoring and cloud-based collaboration platforms help drive operational efficiencies for retailers in areas such as analytics.

How we can help

The circumstances we find ourselves in are unparalleled and changing daily. The way we prepare to weather the impact in the short-term will be key to making sure its long-term effects are contained as much as possible – both for the customers in our care and for our own businesses.

If you'd like to discuss any aspect of this report or find out more about how we can support you through this crisis, please get in touch with your Experian account manager today.

While the road ahead may be rocky, and there will be new developments to navigate, we believe that by working together, and bringing you powerful data and tools, we can help you and your customers.

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