Recovering Sales Now Stores Are Re-Opening

Introduction

This note addresses how retailers are reacting and should react now that they can re-open stores that were closed during lockdown. Most retailers are focused on activities that make stores Covid-Safe for shoppers and staff. **While this is essential it isn't nearly enough.**

During the lockdown, shoppers got used to ordering online and not being able to visit stores, except for essentials like food and medicines. Those that did visit stores did not find the experience pleasant. They were prepared to queue for essentials, but this does not mean they will queue for anything else. Many also got used to working at home and a good number upgraded their broadband.

Omni-channel retailers and online pure plays have seen significant increases in online sales, in some cases well in excess of 100%. Some of this will go back to stores, but a lot of it won't.

While there is no reliable survey evidence yet, anecdotal conversations with retailers and scans of the retail news, suggest that perhaps 20% to 25% of stores will not re-open or will only re-open long enough to exit from leases. About 20%-25% of store employees will very probably lose their jobs. As one example, Inditex (Zara and related brands) has indicated that they plan to close approximately 1,200 of their roughly 7,000 stores between now and 2021.

How Do You Re-Open?

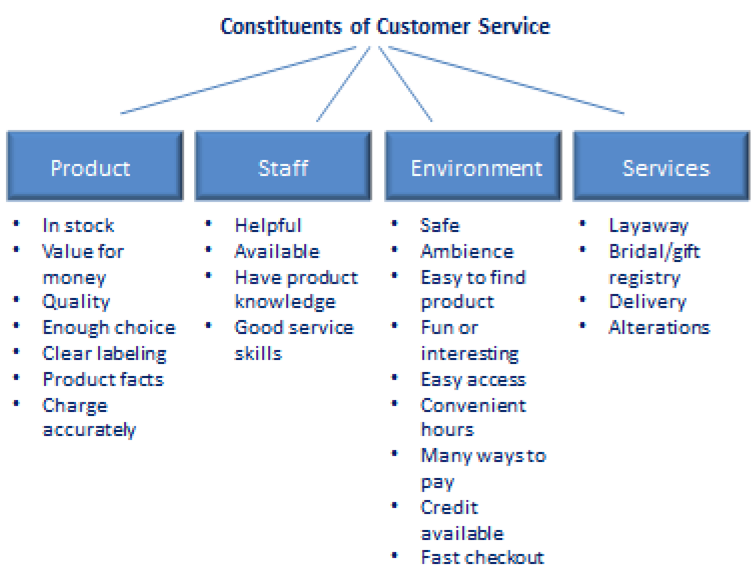
So how do you manage the first few weeks and months of re-opening, giving your business the best possible chance of recovering profitable levels of traffic and conversion rates? Obviously you will make the store as safe as possible for shoppers. This includes things like:

- Plexiglas shields at registers
- Contactless payment to avoid handling cash
- Encouraging customers that can to pay by smart phone
- If you have POS terminals close together, keeping every second terminal closed
- Not letting shoppers use any kind of touch screen
- Visors and face shields for store associates
- Possibly providing face masks for customers
- In store social distancing, which may necessitate widening store aisles (and therefore carrying less merchandise)
- Possibly one way traffic flow depending on store size
- Hand sanitiser at the entrance and various locations round the store
- Social distance markers in the queueing area outside the store
- Limiting the number of shoppers in the store at one time, which may mean no family groups
- Have a greeter at the door to control the number of customers coming in
- Controlling flows at entry / exit points to ensure social distancing requirements are observed
- Closing bathrooms, fitting rooms and cafeterias
- Discouraging shoppers from picking up things they don't plan to buy
- Quarantining returns for two to three days before putting them back on the shelf

- Having staff continually sanitise baskets, carts, shoes that have been tried on, self-checkout terminals, etc. and ensure that shoppers are aware of and use the cleaned items.
- In some cases, admit shoppers by appointment only
- Browsing may have to be limited. Some retailers are giving 10 minute time limits.
- If you provide home delivery, make sure the procedures are Covid-Safe
- Make sure staff are fit to work (as far as possible, e.g. temperature checks, no obvious signs of coughing, etc.).

What Then?

While the above is laudable and very important, **it's not nearly enough!** The shopping experience will still be unpleasant. One thing matters more than all of this. **The customer service must be excellent.** The chart below summarises a variety of factors that contribute to excellent customer service. They don't all apply in every retail segment.



Given all these factors, the aspect of customer service that matters most is being in stock of what the customer wants. Customers have to leave the store having fulfilled the important parts of their shopping mission. Only by completing their purchases will customers believe that the rest of the experience is worth tolerating. So this is the first aspect to concentrate on.

Retailers know that they can't be in stock of everything all the time and the customers understand that too. However, retailers need to be in stock of all the basics all the time, as far as they possibly can. When going into the lockdown, or shortly before, many retailers cancelled orders for new season merchandise. Hence on re-opening, a lot of stock will be year round basics or old season goods. Being in lockdown will have haemorrhaged cash and without access to deep funding or state aid, it will constrain the ability of retailers to buy new merchandise, especially new season merchandise. Fortunately, for most retailers of non-essentials, basics represent 60% or more of store sales.

Hence on day one of opening, make sure you have deep stocks of all the basics wherever possible. Then, while store traffic and consumer confidence is slowly building, and more consumers decide to try shops again, implement the systems that will allow you to maintain high stocks of basics, so that you can build a reputation and sustain it. As you progress, exchange excessively high stock levels for world class systems support. This means using advanced forecasting and replenishment systems so that you can provide high in-stock service levels on smaller inventories. Using advanced systems may not be the challenge you once thought. A lot of the clever mathematics is embedded in the applications and you don't need to understand it to use it well, though a basic understanding does help. Also, because some of these systems are now available from cloud service providers, you can start in one or a few stores and build up at the pace you can manage.

If you let customers try items on, let them handle items and return items to store and then quarantine them first for two or three days, remember that for many apparel items, there will only be one of each SKU in stock in an individual store. While that item is in quarantine, the store is effectively out of stock. A response like "I've got your size in stock, can you come back in 3 days' time to try it on" is unlikely to be attractive. If you can allocate more units of the most popular sizes this may be helpful. On the other hand, if you don't get the traffic, it may not be necessary.

Look at how you can speed up store replenishment. If you can sensibly replenish every store every day, you can achieve service levels as high as replenishing the same stores every two or three days with lower stock levels. In essence, you are trading off increased expense costs against reductions in safety stock. Since safety stock is about 60% of total stocks in most retailers, reducing stock can release big chunks of cash to invest in new merchandise. Hence it may make sense to spend a bit more on physical store replenishment. Do the sums to see how well it works for you.

At the same time, implement initiatives to turn old seasonal stock into cash to help fund new stock. Position it where it is most likely to be seen. Change window displays. Use signage to indicate that good deals are available on this merchandise. Take aggressive markdowns to help move it quickly. The cash helps and you need the space for more current items. If you have access to price optimisation software, especially markdown optimisation, use it. Even if you can't afford to re-stock, change the window displays anyway. You need to get people into the store to sell anything.

Also, thinking ahead, consider RFID technology, if your unit prices for products make it a viable proposition. With RFID, you can sustain very accurate stock levels at store/SKU level of granularity and with minimal store labour. This means that you can satisfy many click and collect orders (BOPIS in the US) from store inventory rather than having to ship every click and collect order from the warehouse, just because you can't rely on store level inventory records today. Again, cloud service providers in this field make the idea more feasible in this environment and you can test it easily in a small group of stores.

Some retailers have widened their aisles to help social distancing. This usually means taking fixtures off the floor so you can't display as much merchandise. The basics need to be on the floor. The seasonal lines usually have a very long tail (when ranked in an ABC analysis of sales per style/product or style/colour/size). So there are two possible strategies here. One is to simply cut the slowest selling SKUs out altogether. However, the most important word in retail is "NEW" (New item, new lower price, new colours, new windows, etc.). "NEW" is important for generating traffic.

Given that space and cash are limited, think about whether the “Bonobos” strategy could work for you. Bonobos is a menswear retailer now owned by Wal-Mart. Bonobos has stores that display and sell menswear. However, every sale is fulfilled from a central warehouse stock, not from store stock. Suppose, for example, you sell a men’s chino in 5 colours and 6 sizes. Bonobo will have one of every size in store so you can try it on and decide the fit is good (Bonobos can tailor it for you if not, but you may not do this). Each of 5 sizes will be a different colour and the sixth size will be in one of the 5 colours. A male customer can try the chinos on to find the right size, pick their colour and then the store associate will go online and order the customer’s chosen item. Since very few customers need those chinos right now, they are prepared to wait for the delivery, as millions of customers do every day when they order online. This is a great way of having newness in store with very low inventories and yet making respectable sales.

If you stay with the strategy of eliminating slow sellers from the long tail, do it sensibly. If a customer wants to buy a fine bone china dinner service, they buy lots of plates and bowls but only one salt shaker and one coffee pot. If you drop the salt shaker or the coffee pot from your assortment, you won’t sell the dinner service. The customer may not want a salt shaker now, but they do need to know they can change their mind later, if they conclude that they have made a mistake. If in any doubt, do a basket analysis to make sure that your slow seller does not impact sales of volume sellers.

Range or assortment planning will become more critical now than ever before. Consumers’ initial buying plans are likely to be very different from their long term intentions or past buying habits. There will be less social shopping. More shopping journeys will be planned in advance and consumers will make wider use of shopping lists. They will suffer the inconvenience of all the Covid safety measures to get the things they really need. When you open you have to sell the stock you have, but as you start recovery you will need to adjust assortments to meet the new reality. This will take time and will be a moving target. As the level of Covid infections retreats more consumers will relax, Covid safety practices will ease, more browsing will be acceptable. Assortments may be able to widen again. Hence assortment planning will be a lot more than an every season exercise. Assortments will need continual adjustment.

As consumers start to return to high street shopping it might be worth considering where your fashion stock is around the country. Is it viable to move the shorts from your stores in the North to the stores in the South East where the warmer weather will more likely maximize sales? On average, if it costs you around 8% of sales to move stock between stores, if you are planning on marking this stock down more than 8% in its current location it might be worth considering relocating those items.

Consider your visual merchandising. Store windows will have remained the same for 12 weeks. Potential consumers may have been walking past during their daily exercise. Display the high stocked pieces you have, style it up, mix it with basics, accessorise it with more luxury items to show how one key piece could make several different outfits. Make sure you change that display every week. For example give your key blazer a formal look one week and a smart casual look the next. If recession starts to bite, consumers will be looking at how to get the most out of their clothing. If they can see the potential to wear a key piece several ways they are more likely to purchase.

Also, history will be less important or helpful as next spring will not look like this spring at all. It may not look like the spring of the year before last either, as some habits and tastes may have changed for good. This increases the risk that retailers will buy the wrong things in the wrong quantities and this plays into the points that follow. Take luggage as an example. Many people will have flown somewhere on holiday last year. This year many fewer will risk a flight. If they go on vacation they will go by car. So they won't worry about the state of their luggage. Next year, more people will fly to a holiday assuming that we don't experience second waves of the virus. But will it be the same volume as two years ago? No-one knows, but it seems unlikely at this point. Hence you will need procedures for how to adjust sales history to make a better planning base line for the new season you are planning. Grocers are having a bumper year for food sales as so many restaurants have been closed for at least a quarter of the year. Now they are re-opening, they will not have the capacity they previously had due to social distancing regulations, hence volumes will not recover to last year. If you prepare category plans for grocery, you will need to adjust history to get a measure of future demand

Another lesson from the pandemic is that we have to bring some manufacturing home. The most obvious examples are toilet rolls, hand sanitiser, certain pharmaceuticals and personal protective equipment (PPE). We also have to work with domestic manufacturers to ensure sustainable supplies of things like flour packed for consumers rather than bakeries. Supply difficulties, especially from China, became a major problem when every country affected by the pandemic was competing for the same manufacturing capacity and cost prices on things like PPE rose by orders of magnitude. This, coupled with the growing use of tariffs and the continuing developments of practical and affordable robot technology, makes it more realistic to bring some manufacturing back home. Governments may mandate some changes to improve the supply security and resilience of the country. Reviewing sources of supply and whether adjustments are necessary is an important task in the recovery.

While on the supply topic, technology supported on-demand manufacturing is another dimension to consider. While not applicable to every product, on-demand manufacturing is becoming more feasible and more affordable for a wider range of products. When you eliminate the time taken for shipping from overseas, problems with tariffs and, in some cases, fear of intellectual property being stolen, coupled with the much lower markdowns due to smaller forecast errors associated with shorter lead times, using on-demand manufacturing might become eminently affordable. This is something to evaluate in appropriate circumstances. Equally, more near time sourcing will speed time to market, help reduce safety stocks and reduce markdowns.

The Covid pandemic probably forced 3 to 5 years online progress in 3 months. Now online volumes are at levels where the deeper implementation of omni-channel possibilities makes good sense. The Bonobos example of where to hold stock for assortments displayed in store is one example. Another is improving demand forecasting accuracy where online systems can provide insight on substitutions when requested products are out of stock and this insight can be used to improve store demand forecasts. Reducing forecast error reduces store safety stocks if you have the right inventory management systems in place.

So far this document has concentrated on inventory and supply chain issues. As the earlier chart shows, there are other dimensions of customer service that also need to be addressed.

Many retailers are looking at trimming store staff numbers to offset some of the cost and profit pressures of the Covid-19 crisis. While this is understandable, it may also be a huge error. It may not be a problem in stores that are largely self-service, but it will be a real challenge in stores where the customers rely on help from a knowledgeable associate. Smart retailers, in these environments, will react by putting more focus on various forms of assisted selling. It may be possible to reduce numbers and still do this, if traffic is low, but you need to be able to ramp up as traffic recovers.

Many stores now have one way systems internally to help keep customers safe, but it often breaks down when the shopper can't find something on their list and have to walk against the flow to go back to a fixture. If you have adequate store staff, get the staff to find the item for them or walk them to the right spot, but train the staff in how to do it safely.

Don't forget the well-being of your staff. How are they after weeks of lockdown? How's their confidence in selling? Being out on the shop floor? Have they all been fully briefed on the new safety procedures? Is there any training required; chatting to customers from a social distance, new etiquettes, how to upsell and cross sell. Customer service matters most right now, so are your staff happy and friendly enough to welcome customers and make them feel comfortable in store. Staff must understand and be comfortable enacting the social distancing measures you have put in place and are properly equipped to deal with customers that are inexperienced in dealing with the shifting sands of social distance requirements.

Promotions largely disappeared during lockdown. However, we now need to incentivise consumers to overcome their fear or reluctance to go back to shopping for non-essentials and to overcome resistance to the relatively poor shopping experience that Covid safety measures dictate. The most important customers to get back are the top three deciles in your loyalty scheme, if you have one.

Customer Spending By Decile

Decile	Visits per week	% Sales	% Cumulative
10	1.78	43	
9	1.20	21	64
8	0.88	13	77
7	0.64	9	86
6	0.47	5	91
5	0.32	4	95
4	0.24	2	97
3	0.18	2	99
2	0.13	1	100
1	0.10	0	100
Total	0.59	100%	

The table above shows a decile analysis for grocery stores. In this example, the top 3 deciles account for 77% of chain sales. The visits column will vary significantly by retail format, but the sales percentage is remarkably consistent.

The top three deciles generally account for 78% sales, so these are the people to get back. They are your big spenders and typically contribute an even higher percentage of your profit. Also, as stated they are only 30% of your customer base. So if you are forced to cut staff, focus them on your top 3 deciles to get the most return for the cost. Design your promotion strategy to get these deciles back. One great advantage of a loyalty scheme, especially where you have customers' email addresses, is that you can focus your offers where they will do the most good, without advertising them to the other deciles and making them feel unwelcome.

What Does All This Mean to Retailers and Their Suppliers?

The industry scuttlebutt right now is that stores will take months to recover traffic levels anywhere close to where they used to be before lockdown. One survey said that 50% of people in the US would get back to normal levels of spend in 6 months. That means that half won't and the half that do will have a bigger share online. The common belief (which could be unfounded at this stage) is that store sales will peak at a maximum of 80% of where they used to be. Online sales will continue to grow long term, though they may lose some of the recent surge in the next few months. Some stores will never regain profitability.

Retailers will now be pre-occupied with:

- How many and which stores to close
- How to exit unwanted leases
- Limiting re-modelling to help preserve cash
- Making sure their Covid safety procedures work with the minimum possible disruption to shoppers
- How to capitalise on the positive trends in the Covid crisis. For example, we've become more local in our shopping habits, we spend differently, essentials or basics make up a bigger share of what we're prepared to buy, we no longer shop in two's nearly so often and never in three's. So how do you change ranges or assortments to suit customer priorities?
- How do we make sure competitors lose more than we do?
- What systems do retailers need to help them move forward now? This will include applications like:
    - Range or assortment planning
    - Machine learning based demand forecasting
    - Improved replenishment systems
    - Computer controlled robotics-based order picking
    - Use of robots to remove selected roles/tasks from stores and warehouses
    - RFID based inventory management where the consumer ticket price supports it
    - What technologies can assist store sales associates offer better customer service (e.g. clienteling and other forms of assisted selling)
    - Fully exploiting omni-channel capabilities, for example using online data to improve understanding of which products substitute for each other, more fulfilment from store stock, kerbside pickup where circumstances allow, etc.
- If you have a loyalty program or a customer database, use it to good effect now. If you don't have one today, think about it for the future. This isn't the last pandemic ever to attack retailers. There will be others. We don't know when but we do know that you will have to build some of this data anyway as more consumers do more purchasing online.

The end result will almost certainly be a change in business plans, technology, logistics and marketing plans and priorities. These will create new opportunities for those able to respond with enough industry insight and knowledge.

What Does it Mean for Consumer Goods Manufacturers?

Retailers will very likely stock fewer products with more focus on basics. Therefore consumer goods manufacturers may experience a high level of de-listing items than historically was the case. Store closures in scale will imply negative growth. This may be offset to some degree in categories that spike in sales as consumers focus more on basics.

Some retailers may ask to return stock they can no longer display. Have a policy ready so that everyone in the business repeats the same message. If you are an account manager faced with this request, remember your negotiation training. If the policy says you can take stock back you are making a concession to the retailer. Trade it for a concession from them that helps you in some way.

If your retail customer is literally strapped for cash and has unpaid invoices with you, decide whether you want them to make it in the long term. If you do, think about the possibility of making some of their unpaid shipments sale or return or consignment stock and accept being paid when they sell the goods or give them more time to pay. Showing flexibility could be beneficial in the long term, but not if you can’t afford to do it yourselves.

As stated earlier, many retailers dramatically reduced promotions during lockdown. Does this mean you provided trade promotion funds the retailer didn’t spend or didn’t earn? Should you claw some of this money back in some way?

Many consumer goods companies create planograms and recommended assortments for their retail customers to use (edited or not). Some food categories have grown, for example, as people eat out and consume takeaways far less, and cook more at home. Planograms will now need to fit to the amended space plans and fixture constraints that retailers implement. Those manufacturers providing category management services or vendor managed inventory (VMI) services will need to recognise the new reality and adjust their services to suit. But, as restaurants re-open, the balance will change again, though it is unlikely to go back to the old normal any time soon. Hence planograms and category plans will need more frequent adjustment.

The mix of branded products and private label may change, especially as growing unemployment constrains many consumers’ spending power and retailers feel more compelled to focus on price in order to get customers back into the stores. This will put more pressure on value lines and discount store formats are likely to take a bigger market share. Manufacturers will need to consider how to react to this. Is this the time to start rolling out wider or larger scale Direct to Consumer plans? Do channels like Amazon become more attractive? Do subscription services?

You may feel the need to support your suppliers more, especially the smaller ones with less financial resources. So Days of Purchases Outstanding may grow at the same time that Days of Sales Outstanding is growing. Inventory levels may also grow at the same time, placing extra pressure on working capital. Chief Financial Officers will almost certainly need to keep a careful eye on cash flow management.

This will drive internal pressures to make cost savings wherever possible and to back pedal on investment projects that made sense before the pandemic, but perhaps aren't the same priority now. Indeed, cash flow may become a much bigger priority than sales growth in the near term.

All consumer goods companies create account plans for their larger retail and wholesale customers. This is an important time to identify all the changes that might occur and determine how these might affect your account plans. Rather like the earlier comments about retailer merchandise and assortment planning, it is likely that you will need to revise account plans much more frequently for some time to come.

Who's Martec International?

Martec International has 33 year history of working with retailers and consumer goods manufacturers. We provide industry leading skills training in areas like:

- Merchandise and assortment planning
- Forecasting, allocation and replenishment
- Merchandise and category management
- Sales and inventory management
- Store operations
- Account analysis and account planning
- Negotiating with retailers
- Building business cases and developing return on investment analyses
- Industry training for new hires and those selling into retail or consumer goods manufacturers.

If you are grappling with any of the challenges discussed in this paper and you need to provide better education to your staff, we may be able to help as this white paper hopefully demonstrates.

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29th June 2020

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