The Retail Ecosystem During COVID-19

April 2020

Michelle Evans, Senior Head of Digital Consumer

Passport
Euromonitor International

This is an extract of The Impact of Coronavirus on Retailing report.

This piece of content includes proprietary information from Euromonitor International and cannot be used or stored with the intent of republishing, reprinting, repurposing or redistributing in any form without explicit consent from Euromonitor International.

For usage requests and permission, please contact us http://www.euromonitor.com/locations.

The data included in this document is accurate according to Passport, Euromonitor International's market research database, at time of publication: April 2020.

© Euromonitor International

Passport

INTRODUCTION

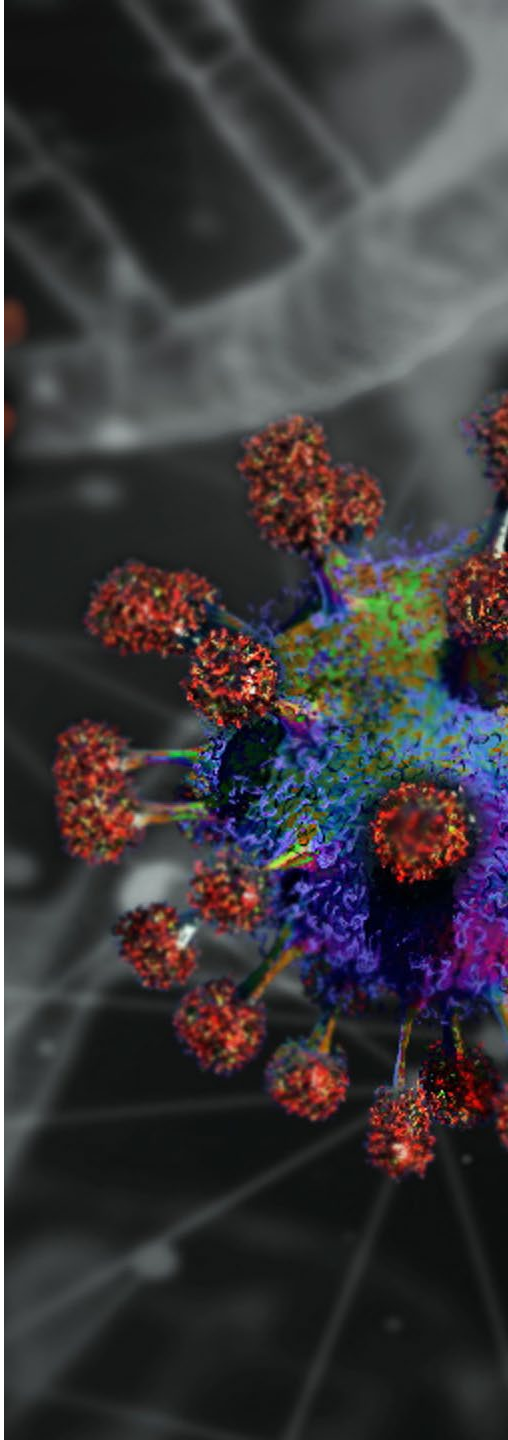
ECONOMIC OUTLOOK

INDUSTRY IMPACT

CORPORATE RESPONSE

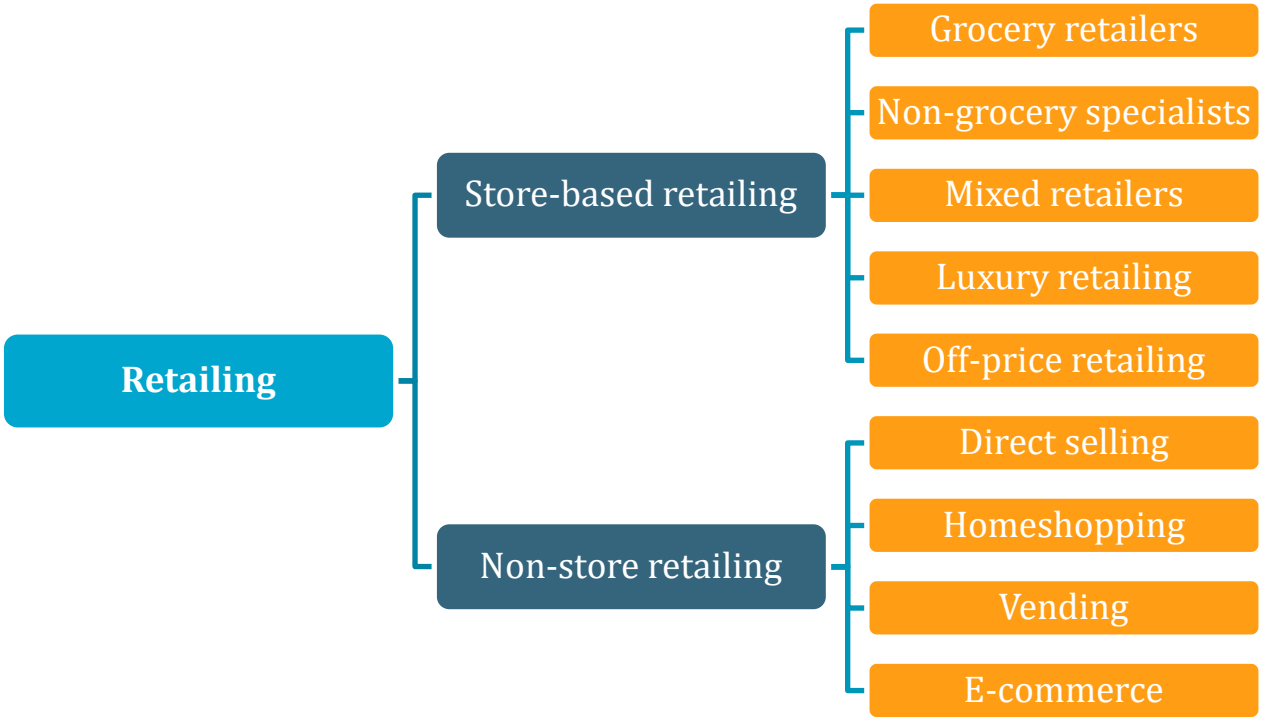
CONCLUSION

ABOUT OUR ANALYTIC CAPABILITIES



Scope

- All values expressed in this report are in US dollar terms, using a fixed exchange rate (2019). All forecast data are expressed in constant terms; inflationary effects are discounted. The historic period refers to 2014-2019; the forecast period is 2019-2024.
- This report covers the following categories:



Disclaimer

Much of the information in this briefing is of a statistical nature and, while every attempt has been made to ensure accuracy and reliability, Euromonitor International cannot be held responsible for omissions or errors.

Figures in tables and analyses are calculated from unrounded data and may not sum. Analyses found in the briefings may not totally reflect the companies' opinions, reader discretion is advised.

Nothing in the modern evolution of the industry has compared with the global disruption caused by the coronavirus (COVID-19) pandemic. Given that retailers sell across categories, the pandemic will negatively impact some more than others. The outlook is strongest for essential businesses, such as grocery retailers, and those with more well-equipped digital operations.

Key findings

COVID-19 will severely impact both the supply and demand sides of the economy	The pandemic has forced governments to quarantine entire countries, disrupted supply chains, slashed business and consumer confidence and affected financial markets. Euromonitor International's baseline forecast for global real economic growth in 2020 is in the range of -1.5 to .5%.
Some retailers will fare better than others	The restrictions have led to the collapse of the travel industry, but the impact will not be as severe in retailing. Retailers sell across categories, meaning that the pandemic will negatively impact some channels more than others.
Past economic downturns provide clues as to the impact on retail	The Global Financial Crisis had a severe impact on consumer markets. The overall retail industry declined by 3% in 2009, but rebounded in 2010, with 6% growth. Past public health emergencies, like the SARS and MERS outbreaks, also provide clues as to how retailing may fair amid the crisis.
Retailers grappling with a "new normal" during pandemic outbreak	The uncertainty of COVID-19's impact on the economy has prompted retailers to withdraw their earnings outlooks for the quarter and/or whole year. Some are exploring filing for bankruptcy to restructure debt and others are borrowing against their lines of credit to ensure proper cash flow.
Pandemic will reshape retail moving forward	Big consumer shifts are already under way as society evolves from a carefree world to one under lockdown. This phase is likely to lead to a permanent boost in ecommerce and contactless payments as well a potential divergence of the supply chain or a reimagined store pick-up.
Technology will become forever linked with commerce henceforth	Technology is here to stay. This crisis has underscored the important role that technology plays in how consumers live, work, shop and play. Some companies are already making acquisitions to boost their tech capabilities.

© Euromonitor International

Passport

INTRODUCTION

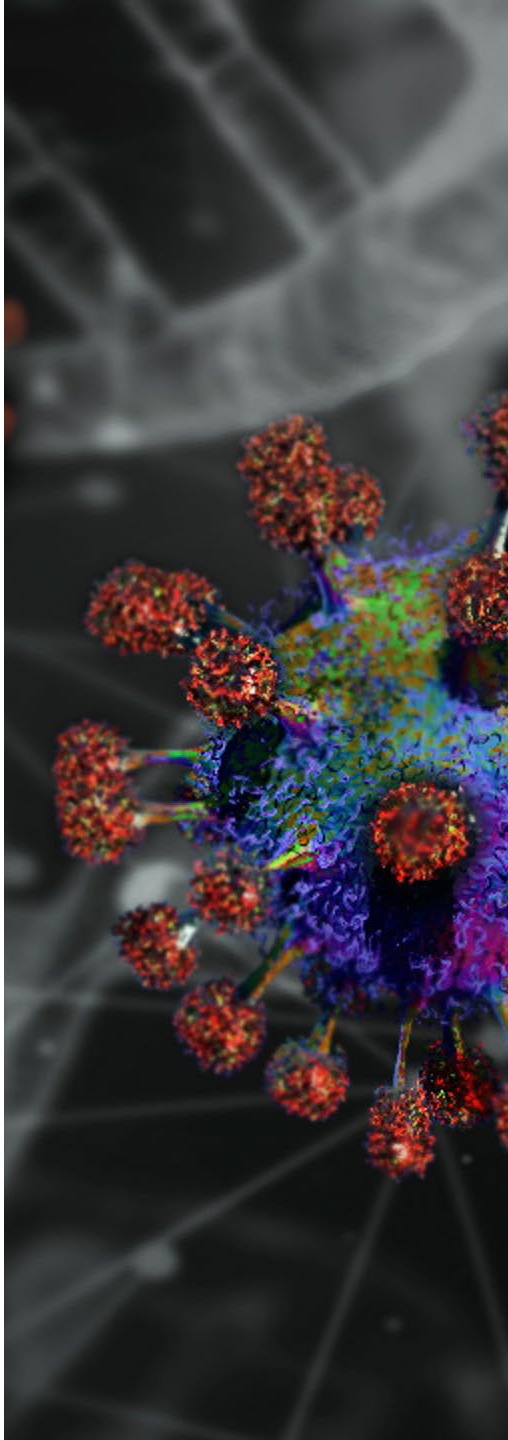
ECONOMIC OUTLOOK

INDUSTRY IMPACT

CORPORATE RESPONSE

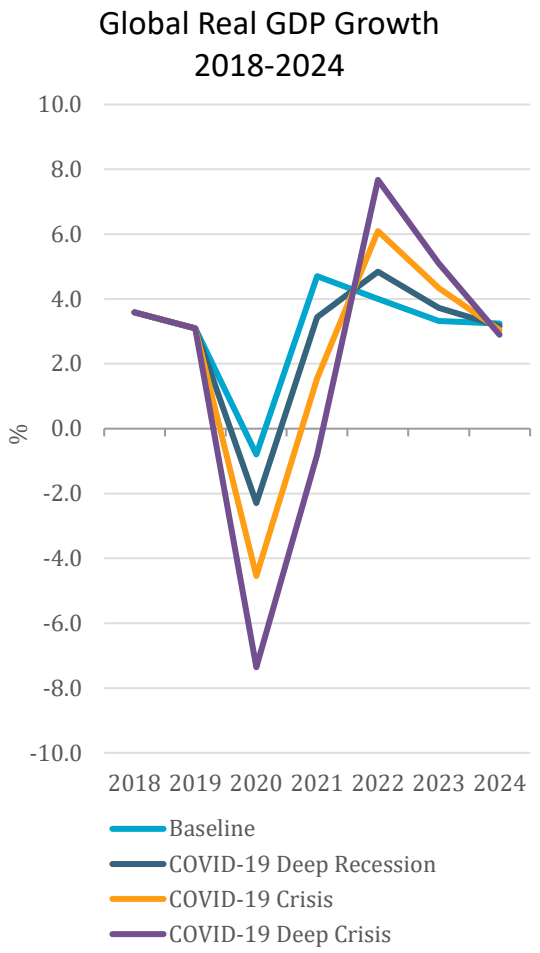
CONCLUSION

ABOUT OUR ANALYTIC CAPABILITIES



Global GDP is likely to contract in 2020 under the baseline scenario

- The COVID-19 pandemic has forced governments to quarantine entire countries, disrupted global supply chains, slashed business and consumer confidence and affected financial markets. The effects on the global economy are already being felt, and will be substantial, but the exact magnitude will depend on the length of COVID-19 restrictions.
- COVID-19 will severely impact both the supply and demand sides of the economy. At the same time, monetary policy tools are almost exhausted due to the slow recovery from the Global Financial Crisis. Interest rates have not recovered, so central banks have to resort to Quantitative Easing programmes (QEs), but QEs have limited effect on labour markets, consumer spending and other aspects of the real economy.
- Thus, countries have to turn to fiscal stimulus. However, the response to fiscal stimulus will be limited too as long as people are quarantined in their homes. In the meantime, governments are helping businesses and citizens by providing emergency loans to cover expenses and lower the spillover effects through economies, but uncertainty surrounding the pandemic limits economic activity.
- Our baseline forecast for global real economic growth in 2020 is in the -1.5 to 0.5% range, placing it in the bottom three growth rates for all years since 1961.



Source: Euromonitor International Macro Model

Three scenarios examine the impact of a more severe outbreak

COVID-19 Deep Recession: Global GDP growth of -3.5% to -1.5% in 2020

- In this scenario, the pandemic lasts until June/July 2020, during which time around 15% of the global population is infected.
- The healthcare sector is overloaded only in a few regions and the mortality rate remains close to 1.0%. We estimate the mortality from all infected people, not only from confirmed cases.
- Global supply chains become disrupted and cashflow mismatches lead to a rise in bankruptcies.
- However, the number of bankruptcies is contained by significant government policies.

COVID-19 Crisis: Global GDP growth of -5.5% to -3.5% in 2020

- In this scenario, the pandemic slows down in the summer but returns in September. Nevertheless, it is relatively contained by around November.
- In total, up to 25% of the global population is infected but not all of them are tested. The mortality rate rises compared to a less severe scenario and reaches around 1.5% as a significant portion of hospitals becomes overcrowded and healthcare systems struggle to cope, leaving some patients without the treatment they need.
- A significant portion of businesses go bankrupt.

COVID-19 Deep Crisis: Global GDP growth of -9.0% to -5.5% in 2020

- In this most extreme scenario, the pandemic returns with larger presence in the autumn and lasts until spring 2021.
- More than one third of the global population gets the virus, and healthcare systems across some countries completely collapse: hospitals cannot admit most of the patients and the mortality rate rises to around 2.5% globally.
- Fiscal and Monetary stimulus packages are inadequate, and a significant number of businesses go bankrupt, leading to a skyrocketing of the unemployment rate around the world.

© Euromonitor International

Passport

INTRODUCTION

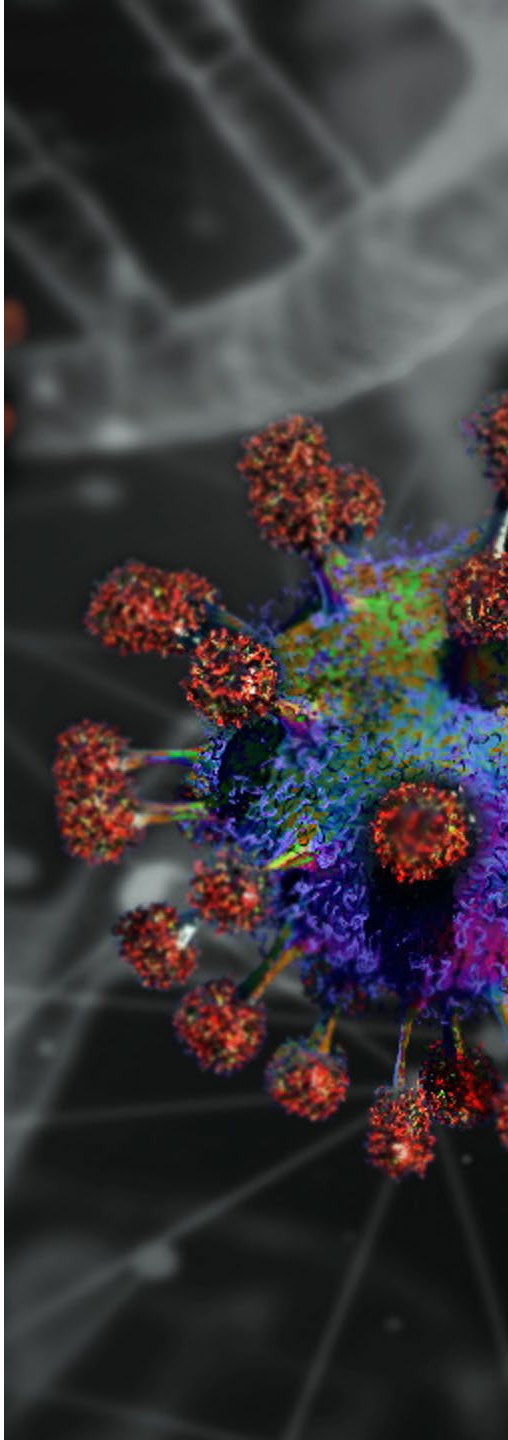
ECONOMIC OUTLOOK

INDUSTRY IMPACT

CORPORATE RESPONSE

CONCLUSION

ABOUT OUR ANALYTIC CAPABILITIES



An unprecedented shock to the retailing industry

- Retailers are operating in a new reality. Unlike so many industries where the shock might be felt universally, some retailers are seeing unprecedented demand, while others are looking for lifelines.
- Grocery retailers were thrust into overdrive as they supply food. Online grocery retailers saw their systems buckle as consumers stocked up on food, tissue and hygiene, and cleaning supplies. Third-party online delivery services became essential services overnight, putting the labour practices of the gig economy in the spotlight.
- It is a different story for non-essential businesses. Apparel and footwear specialist retailers are among the hardest hit. In the US, there was a 50% year-over-year drop in sales in March, according to the Commerce Department. Furniture, electronics and sporting goods all fell by double digits. In fact, the US posted it biggest month-on-month decline since records began in 1992.
- Such steep declines conjure up thoughts of the Global Financial Crisis as that period can provide clues as to the kind of strains the global retailing industry could face in the months and years to come.

Global scale

- COVID-19 likely to impact every country
- "Social distancing" restrictions, including outright closure of non-essential retail stores

Mandated shutdowns

- Non-essential retailers now facing 1-2-month period with limited-to-no sales
- Online order and delivery markets become more competitive overnight

Sudden demand shifts

- Consumer demand spikes for products such as food, tissue and hygiene and cleaning products
- Such demand leads to supply chain challenges and product shortages

Economic devastation

- Closures lasting longer than a few weeks could drive wave of bankruptcies
- Significant contraction in workforce, with at least one million retail workers furloughed in the US

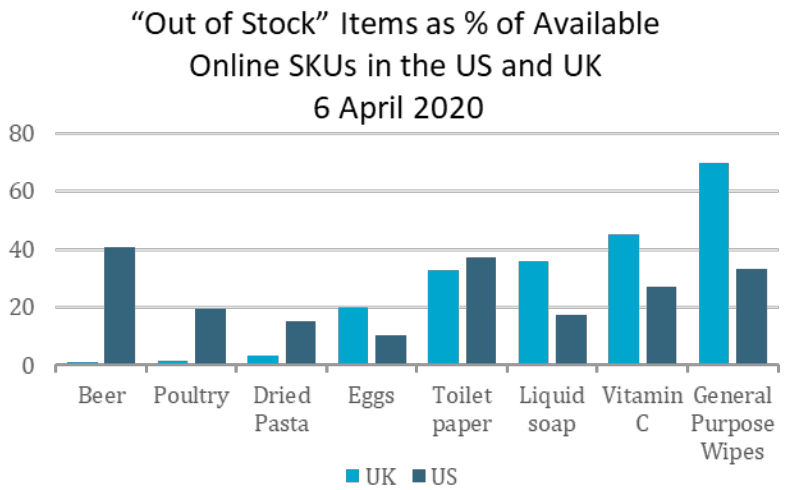
Long-term consumer demand shifts

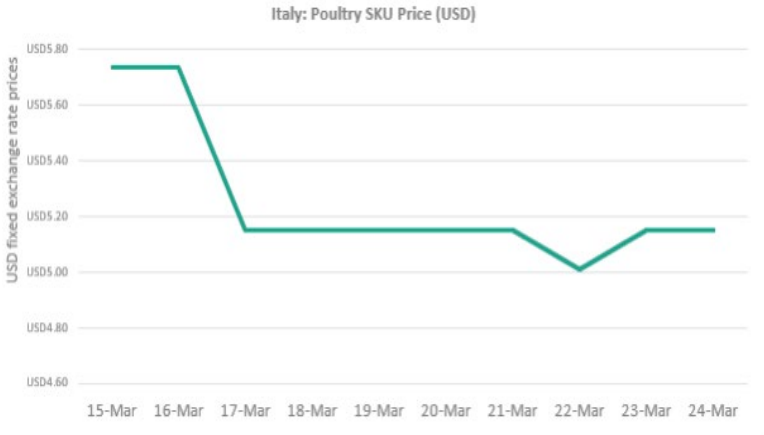
- Crisis could accelerate existing trends, including the shift from physical to digital channels

© Euromonitor International

COVID-19 leads to shortages across essential categories

- COVID-19 is having an unprecedented impact on consumer markets, with bulk buying of groceries and other household essentials. Add to that factory closures and the pandemic is placing a tremendous burden on supply chains. UK digital freight forwarder Zencargo said electronics, clothing and furniture were the top categories impacted by such issues.
- In countries like China, where the outbreak is more contained, product availability has normalised for most categories, with the exception of Western OTC and traditional Chinese medicine products, according to Euromonitor International's Via. In countries like the US and the UK, where new cases continue to rise, the percentage of out-of-stock essentials seems to peak daily. Shortages are soaring for fresh and shelf-stable food, tissue and hygiene and cleaning supplies.
- COVID-19 is also changing shopping habits. Italians, who were averse to shopping online, are turning to e-commerce. Moreover, Italians are buying long-life products, putting fresh food under pressure. An example is poultry, which saw its median online SKU price fall from USD5.74 on 15 March to USD5.15 on 24 March, a decline of more than 10% in just 10 days.





Source: Euromonitor International's Via

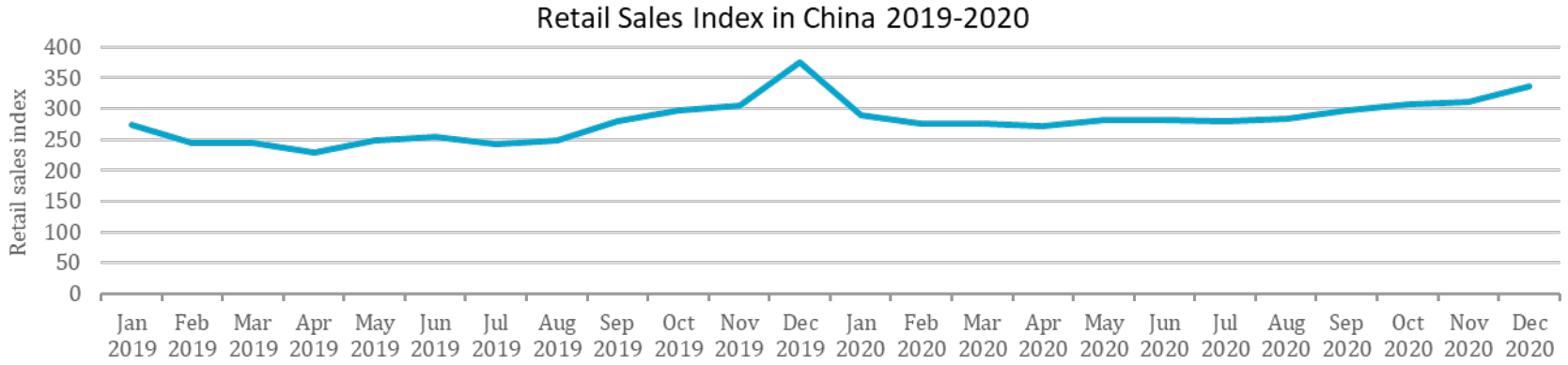
Routes to disruption

	Short-term impact (Q1-2)	Medium-term impact (Q3-4)	Long-term impact (2021 onwards)
Macro-environment + Legislation	•Sectors of the economy are shut down to reduce spread of virus •Overnight surge in unemployment •Reduced disposal income	•Disposable income remains depressed •Potential for balance sheet recession •Potential for secondary COVID-19 outbreaks	•Potential for repeated, sporadic lockdowns •Potential for more rigorous testing to reduce spread •Enhanced sanitary guidelines
Supply Chain	•Demand spikes for certain products, pressuring supply chains •Outbreaks cripple supply chains, leading to shortages	•Increased emphasis on local sourcing •Continued expansion of e-commerce infrastructure to keep up with new demand	•Shutdown of the world's manufacturing hub, China, leads to calls for greater supply chain diversification •Greater emphasis on automation in supply chain
Channel	•Significant increase in use of e-commerce •In-store retailing characterised by stocking up at essential retailers like grocery stores	•Continued online demand •Surge in bankruptcies among non-essential retailers produces a wave of closures, titling balance towards better-capitalised chains	•E-commerce usage deepens •In-store experience becomes paramount •Boost to discounters and private label as consumers deal with economic fallout
Consumer + Consumption	•Stockpiling on essentials like food, home care, etc •Increased brand switching due to product shortages	•Discretionary spend falls, retailers turn to discounting •Uptake in digital engagement and virtual assistance	•Concerns about large gatherings dampens traffic at shopping centres and other in-store retailers

© Euromonitor International

What other markets might glean from China's COVID-19 recovery

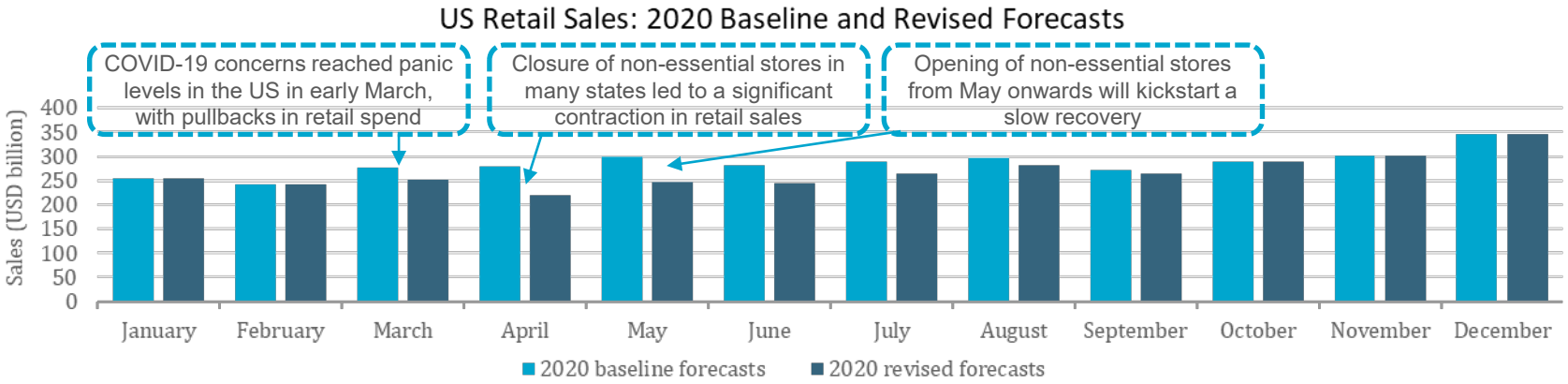
- Based on trends observed in China, retailers operating in countries impacted by COVID-19 are likely to see a major drop in consumer demand, driven in large part by the near erosion of discretionary spending. Retailers supporting categories such as packaged food, home care, and tissue and hygiene will see demand soar. Given the heavy shift to e-commerce during the height of the outbreak, retailers with a stronger digital presence prior to the outbreak are likely to fare better as consumers shift online.
- Using what has transpired in China as a proxy for what might unfold in other markets, the potential for a significant contraction in the retailing industry becomes clear. During the two most intense months of the COVID-19 outbreak in China, the retailing industry overall dropped by 21%. Given that the potential pace of economic recovery remains unknown in China, one would need to review other past public health events for guidance on a potential recovery. During the SARS epidemic, retail sales in China bounced back to pre-crisis levels almost straight after the WHO declared the virus contained. That bounceback to pre-crisis levels occurred just two months after China reported its lowest retail sales growth in a two-decade period.



Source: Passport Economy, Finance and Trade
Note: The Retail Sales Index measures the turnover of the country's retail trade industry at current

Significant contraction in retail sales certain in 2020

- In this slide, we look at the US, given that it has had the most COVID-19 infections to date and it is the largest retailing market globally. Applying growth assumptions to Euromonitor International's 2020 forecasts in the US indicates there will be a pullback in demand in early March through May. Even assuming a relatively swift recovery as noted in our baseline COVID-19 forecast, with normalisation by Q4 2020, there could be a 6.47% contraction in US retail sales in 2020, down USD221.6 billion from previous baseline estimates published on Passport Retailing. US retail contracted by just 2.2% in 2009 in comparison.
- All that being said, this is a rough model, with far too many unanswered questions to be definitive, but it gives a sense of the challenges ahead. There are big unknowns, including the progression of the virus and government intervention, which will impact by 1-2% (upside or downside), with such impacts varying significantly by market. In addition, the digital maturity of some markets may also help to soften the blow as non-essential stores were closed during lockdowns. Only 15% of goods were bought online in the US in 2019, as compared with 28% in China, according to Passport Retailing.



Source: Passport Retailing
Note: Passport Retailing data were seasonally adjusted based on estimates from the US Census

Factors that could impact these long-term forecasts

Progression of virus

- Many uncertainties remain about the progression of COVID-19. Whilst, at the time of writing, the virus appears to be contained in markets like China, this is by no means certain, with numerous experts suggesting the possibility of a second wave of infections later in 2020. In early April, Singapore and Hong Kong both reported a second wave of infections. Lastly, the course of the virus could be far more prolonged or shorter in any market.

Consumer shifts

- Even in a best-case scenario of relatively short period of restriction alongside a rigorous programme of testing and tracking suspected case, consumer fears will likely remain throughout 2020. As such, in-store traffic will likely remain depressed as compared with 2019 as consumers exercise more caution by avoiding large gatherings. Economic concerns also could continue to hurt discretionary spending for a period of time.

Industry response

- Drastic shifts in consumer demand as well as officially mandated lockdowns have changed how some retailers operate, seemingly overnight. For example, the boost in online shopping has made grocery checkout staff and delivery service workers essential parts of the economy on par with health care workers. How the industry fares will depend in part to how efficiently and effectively retailers and suppliers respond to such drastic shifts in demand.

Official response

- The development of COVID-19 as a global pandemic has driven an unprecedented global response, with governments taking increasingly drastic measures to support national economies in the face of the mandated shutdown of vast portions of the consumer economy. Even so, responses still lag results, with unemployment soaring in key markets, creating a potential secondary demand shock alongside the current wave of shutdowns.

© Euromonitor International

Passport

INTRODUCTION

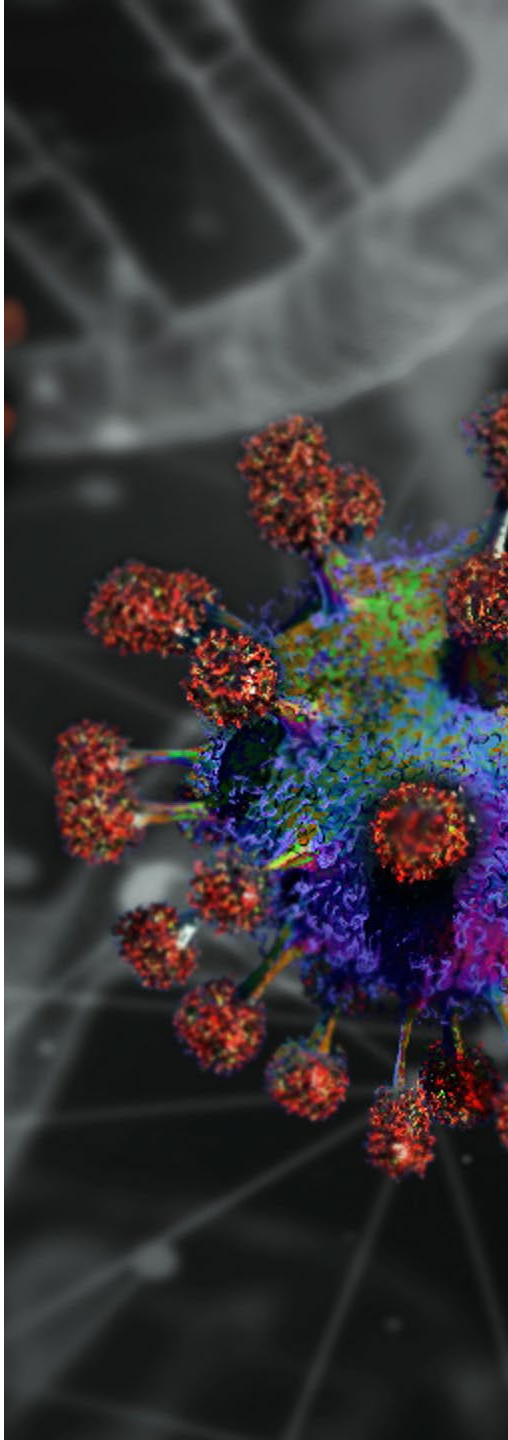
ECONOMIC OUTLOOK

INDUSTRY IMPACT

CORPORATE RESPONSE

CONCLUSION

ABOUT OUR ANALYTIC CAPABILITIES



Long-term impact largely unknown as COVID-19 spreads globally

- Both essential and non-essential retailers are grappling with a new normal, forcing them to rethink their operations. The uncertainty of COVID-19's impact on the economy a month or even a year from now has prompted retailers to withdraw their earnings outlooks for the quarter or entire year. Retailers like Nordstrom, Ulta, Best Buy, Lululemon, Nike and Target have made such announcements.
- Some governments have mandated that non-essential businesses close. Some retailers have gone further. Lululemon closed its North American and European stores, but kept e-commerce operations open. TJX closed all of its stores in North America, Europe and Australia as well as its digital channel. L Brands took a hybrid approach. It closed all of its Bath & Body Works, Victoria's Secret and Pink stores in North America and its digital operations, with the exception of Bath & Body Works, which sells soap and hand sanitiser.
- Essential businesses, including grocery retailers, warehouse clubs and discounters, are experiencing an unprecedented surge, starting with the lead up to the outbreak. US discounter Dollar Tree reported a noticeable pick up in store traffic and sales of essential products. Costco saw a noticeable uptick in traffic at the end of February. Walmart sales at its US stores increased nearly 20% in March, according to documents viewed by the Wall Street Journal. Target reported that sales from stores and digital channels were up more than 20% in March compared with the same period a year earlier. Panic buying also led to a 30% boost in sales for UK supermarket Tesco. JD.com saw online grocery sales more than triple year-on-year during a 10-day period between late January and early February.
- The uncertainty has led some to seek cash. Some retailers like Best Buy, Albertsons, TJX and VF Corp have tapped their credit lines. Goldman Sachs Group estimates that US companies drew down about USD230 billion from revolving credit lines from March through April 9. Inditex, which owns Zara, suspended its dividend to shareholders and diverted cash to strengthen its balance sheet. Even at Tesco, where sales are up 30%, CEO Dave Lewis said profit is not guaranteed due to added COVID-19 expenses, which is the reason it gave for accepting a tax break as part of the UK government's emergency support package.

Those in the retail ecosystem likely to fare better amid the crisis

Grocery retailers

- Grocery retailers were thrust into overdrive as they kept communities fed amid lockdowns. For example, US grocers saw the largest website traffic spikes between 25 February and 23 March, according to SimilarWeb.
- The spike in demand was not without challenges. Supply chains buckled under pressure and grocers incurred extra costs in trying to operate safely.

E-commerce retailers

- Those retailers that sell essential goods like food and that already had a strong online presence will fare the best amid this crisis.
- Amazon is an example of such a company. It went on a hiring spree, announcing it would hire 100,000 workers and then another 75,000 over the course of a month, to keep up with surging demand. It also delayed shipment of non-essential goods.

Delivery platforms

- Companies went on hiring sprees to keep up with surging demand for grocery delivery as consumers were shut-in during lockdowns and turned to e-commerce and delivery as a safer option for securing essential goods.
- Third-party delivery platforms became essential parts of the economy overnight, shining a spotlight on labour practices across the gig economy.

Big food brands

- Big food brands, which struggled as consumers shied away from processed foods, saw a resurgence as consumers opt for shelf-stable foods during lockdowns.
- These brands may perform well after lockdowns are lifted because at-home consumption will remain high as consumers look to reduce spending amid any economic downturn.

© Euromonitor International

Those in the retail ecosystem likely to be hit hardest by the crisis

Apparel and footwear specialists

- Apparel was one of the hardest hit categories, with the US Department of Commerce reporting a 50% drop in sales in March just as lockdowns went into effect across the US.
- Apparel and footwear specialists have responded by cancelling or delaying orders from factories and even packing up inventory to sell in 2021 after the worst of the crisis has hopefully passed.

Department stores

- Department stores as a format fell out of favour following the Global Financial Crisis as consumers instead turned to online shopping and specialist retailers.
- Many department stores are highly leveraged, forcing them to take a number of measures to cut costs and raise liquidity, but even that may not be enough to stave off bankruptcy or takeover.

Luxury retailers

- Luxury retailers will be hit hard as discretionary spending bottoms out amid the crisis and the economic downturn.
- In addition, the overall industry has been dependent on China's expanding middle class for growth, so the lockdowns in China and the erosion of Chinese travel will negatively impact the industry's future growth.

Direct-to-consumer (DTC) brands

- While DTC brands stand to benefit from their digital-first mentality and the absence of high fixed costs from a network of physical stores, the drop in consumption is hurting sales, forcing them to rely on their savings.
- Many DTC brands were in trouble before COVID-19 as venture-backed founders pushed for growth at the expense of profit, leaving little cushion in case of economic downturn.

© Euromonitor International

Main challenges for retailers moving forward

Radically altered demand

- The pandemic and officially-mandated shutdowns created unprecedented shifts, including a surge in demand for essential items like food, paper products and cleaning supplies. Although there was, at the same time, a sharp decline in food sold through restaurants, redirecting such food to retail channels where consumers want to make such purchases is not a simple switch. The lockdowns also broke the supply chain, making it difficult to obtain products.

Need for overnight digital acceleration

- Although consumers have been accelerating their shifts to digital over the last decade, the lockdowns led to a sharp surge in e-commerce as ordering online provided a safe haven for consumers seeking safety in the comfort of their own homes. The rapid shift from physical to online put pressure on retailers, leading to product shortages and delayed deliveries as the pandemic shone a spotlight on the promise of online grocery delivery.

Geographic diversification of little help

- With economic contractions, there is often the potential for a company to insulate itself from downturns in a particular area. With COVID-19 present in over 200 countries, there is not a market or category which will not be severely impacted. Even China, where the outbreak appears to be under control, faces a long period of economic uncertainty and depressed demand, to say nothing of continuing flare-ups of illness as movement restrictions are lifted.

Shifting consumer habits

- A prolonged lockdown period across markets could produce lasting behavioural changes among consumers trapped at home and concerned for their economic and physical wellbeing. Consumer use of e-commerce could increase long term, with lockdowns serving as an introduction to many of these services for older cohorts. An economic downturn could lead to continued cocooning, boosting spend through grocery retailers too.

INTRODUCTION

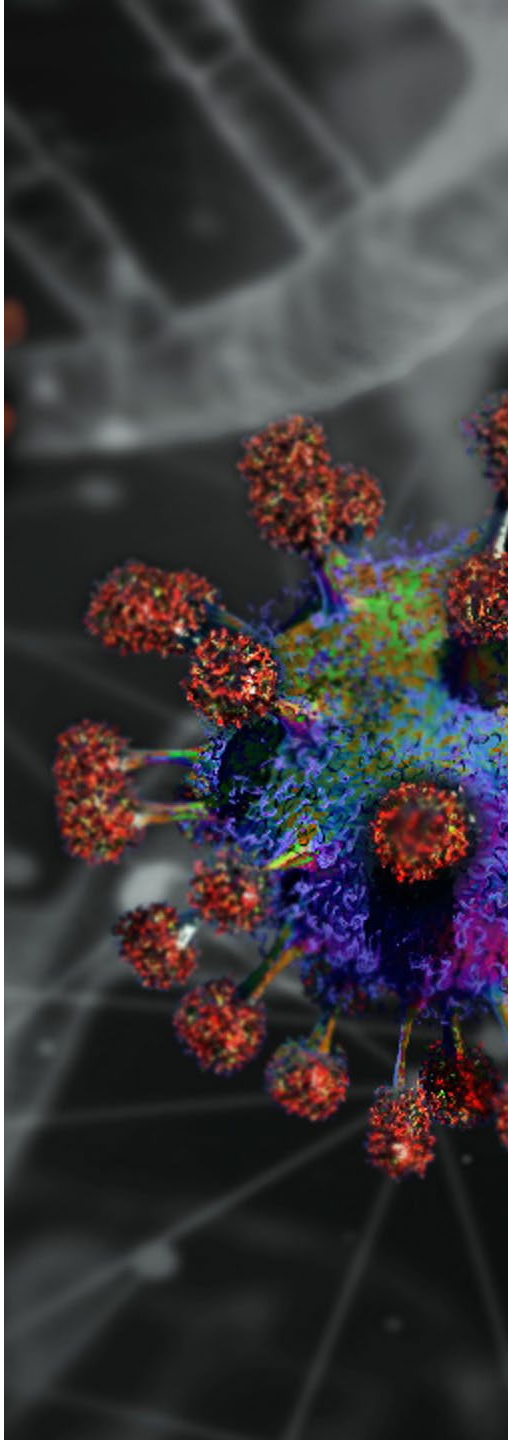
ECONOMIC OUTLOOK

INDUSTRY IMPACT

CORPORATE RESPONSE

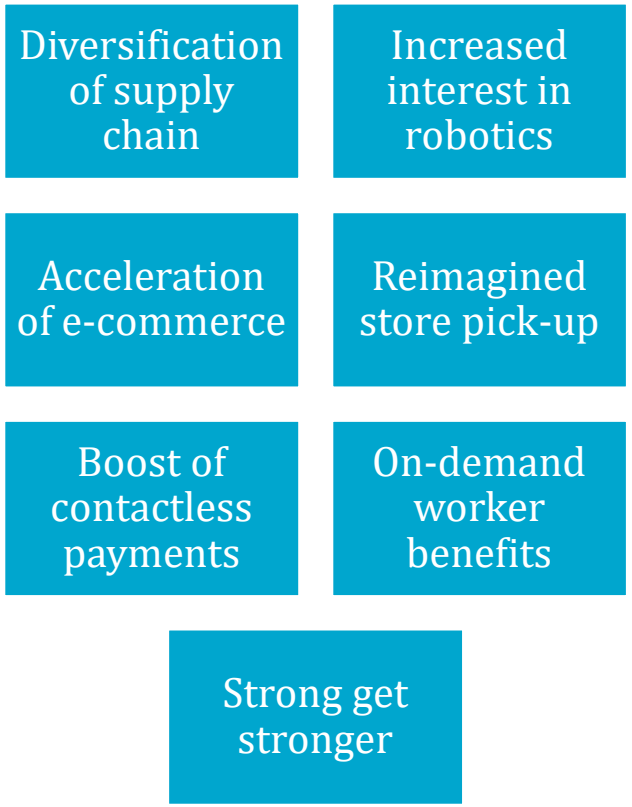
CONCLUSION

ABOUT OUR ANALYTIC CAPABILITIES



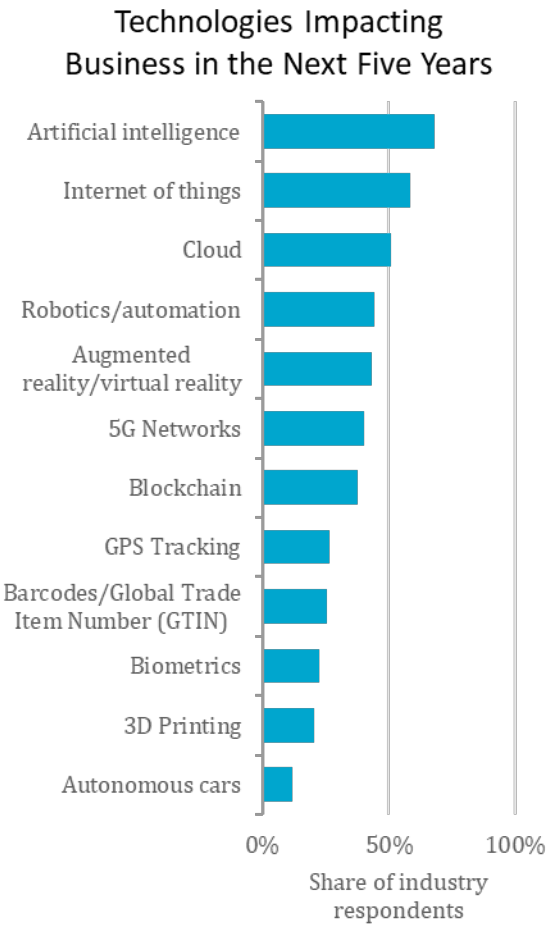
How the pandemic may change retailing in the future

- There are big unknowns with regard to how long the outbreaks may last and the potential pace of recovery. This will also differ by market, based on the severity of the outbreak and government response.
- What is known, though, are the big consumer shifts already under way as society evolves from a carefree world to one under lockdown. Even as economies open up, social distancing may become a way of life until there is a vaccine for COVID-19. The longer such measures last, the more likely it is to fundamentally change consumers.
- Though uncertainties remain, these seven observations point toward initial changes expected for the retailing industry ahead:



Technology will be interwoven with commerce henceforth

- One likely long-term impact from the global pandemic will be the growing role of tech. During the outbreak, technology has played a starring role. This pandemic will likely accelerate the trajectory of technologies like cloud computing, which make businesses more flexible. Robotics will likely receive an initial surge in interest, since such technology would reduce human contact. IKEA even acquired an AR start up to give store-like shopping experience to consumers
- Although technology will gain more attention, the subsequent economic downturn due to the lockdowns taking place globally will likely delay investments in some initiatives that are deemed as not essential in today's operating environment. Despite the promise of these technologies, not all companies were investing prior to the COVID-19 pandemic. In fact, the lack of a clear use base was the overwhelming reason that respondents provided for not having invested across key technologies. This is unlikely to change because of the pandemic.
- Regardless, technology is here to stay. As of the November 2019 fielding of Euromonitor International's Voice of the Industry: Digital Consumer Survey, half of industry respondents agreed that having a digital presence was an important part of their company's value proposition. If this survey were fielded today, this sentiment would likely be higher as this crisis has underscored the important role that technology does play in how consumers live, work, shop and play.



Source: Euromonitor International's Digital Consumer Voice of the Industry Survey, November 2019

Passport

INTRODUCTION

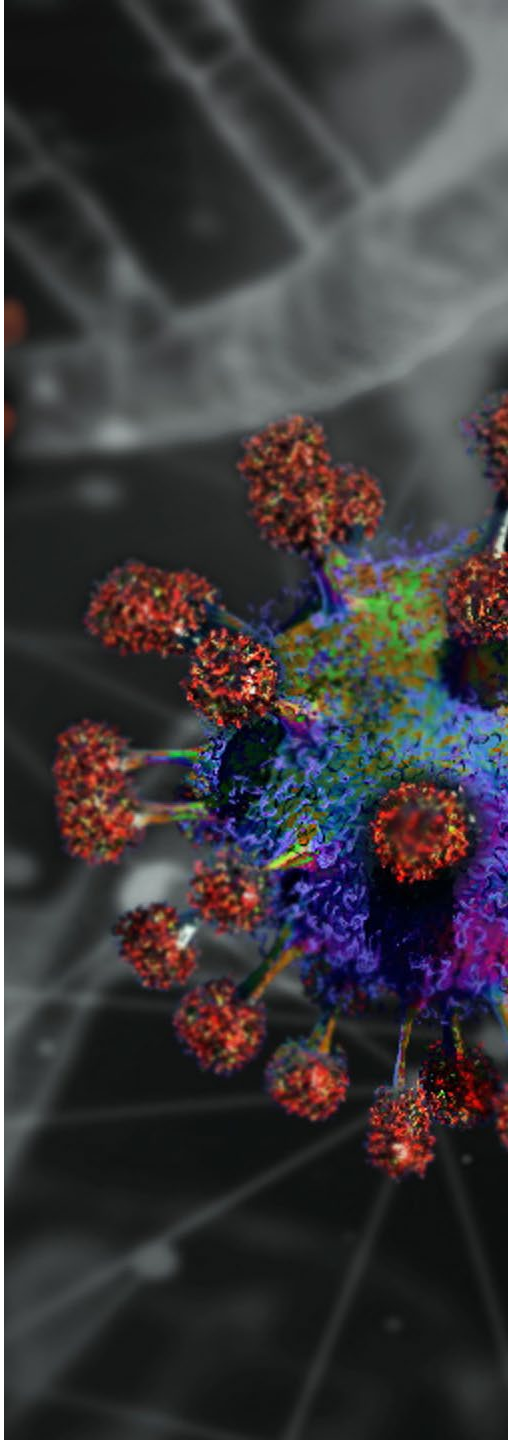
ECONOMIC OUTLOOK

INDUSTRY IMPACT

CORPORATE RESPONSE

CONCLUSION

ABOUT OUR ANALYTIC CAPABILITIES



About Euromonitor International and Passport

Euromonitor International is a global market research company providing strategic intelligence on industries, companies, economies and consumers around the world. Comprehensive international coverage and insights across consumer goods, business-to-business and service industries make our research an essential resource for businesses of all sizes.

Our global market research database, Passport, provides strategic intelligence on consumer goods. It offers shared access to all of our internationally comparable statistics, analysis and datagraphics. Passport connects market research to your company goals and annual planning, analysing market content, competitor insight and future trends impacting businesses globally.

About Euromonitor International's Macro Model

Euromonitor International's Macro Model allows us to regularly update key macro indicators like real GDP growth, as well as create hypothetical scenarios that simulate potential macro shocks. In turn, this ability to change macro forecasts like GDP growth allows us to create multiple retail category or income/wealth band forecasts.

Our macro forecasts are produced as a combination of:

- A global macroeconomic model that uses data from multiple sources on GDP growth, inflation, interest rates, exchange rates and unemployment rates to forecast those variables.

- Further adjustments via model shocks/scenarios to reflect other variables and information that is not taken into account directly by the pure model forecast. For example, other credit market or confidence measures, as well as the macro views of policy institutions and other private sector forecasters.

Euromonitor International's Macro Model itself is an extended version of one of the main forecasting and scenario analysis models of the IMF (International Monetary Fund). The benchmark model has five observable variables for each economy. These are real GDP, the consumer price index, a short-term interest rate, the unemployment rate, and the exchange rate against the US dollar.

Thank you

Michelle Evans, Senior Head of Digital Consumer

michelle.evans@euromonitor.com
https://twitter.com/mevans14/
https://www.linkedin.com/in/michelleevansmaclachlan
https://www.forbes.com/sites/michelleevans1/#

Passport
Euromonitor International