Navigating retail’s reopening for success in the new reality

COVID-19 impacted US commerce in an unprecedented way. In March 2020, the majority of the country engaged in social distancing, most states mandated non-essential businesses to close, and consequently much of retail activity came to a halt. The fall-out has been staggering as retailers have furloughed employees in the millions and closed stores indefinitely. Essential retailers, like grocers and drug stores have remained open, temporarily benefiting from people stocking-up. Grocery delivery services have surged as people stay homebound, and a lot of non-essential retail has moved exclusively online.

Once social distancing ends, retailers will be faced with a landscape vastly different than the one that existed prior to COVID-19. To successfully prepare for reopening, it is critical for retailers to develop a data-driven playbook to optimize their footprint, develop a new operating and business model, and secure a financial position to carry them to success in the new reality.

Three stages of COVID-19 for retailers

Phase 1: Resiliency - Peak Pandemic / Shutdown
- Retailers close “non-essential” stores, furlough employees, adapt to work-from-home, pivot to e-commerce, and enact measures to preserve cash

Develop plans to reopen, set strategic direction, and prepare business for the possible paths towards the new reality

Phase 2: Recovery- Reopening for Business
- Retailers that survive reopen select stores, with differing timelines across markets driven by state/country mandates and consumer demand

Period of significant uncertainty as a start / stop cycle is expected. Retailers will need to modify, reprioritize, accelerate plans and execute rapidly

Phase 3: Post-COVID-19 New Reality
- “Non-essential” retail fully open with minimal on-going disruption from COVID-19

Lasting implications for the retail industry:
1. Discretionary spend will remain lower than pre-COVID-19 levels due to the recession
2. Step-change increase in e-commerce adoption
3. Acceleration of store closures and bankruptcies
In reopening for business, retailers will need to adopt a more flexible and faster planning process

Planning for the reopening
Given the rapid and changing nature of the Reopening, traditional planning methods driven by multi-year plans, seasons or quarters are inadequate for the moment. To manage through the high level of uncertainty that will be inherent in the Reopening, retailers need to manage three interdependent activities:

- Estimate timelines for ending shelter at home policies by market
- Forecast scenarios for ramping store-level traffic and product mix
- Develop P&L forecasts by location

- Protect staff and customers in stores
- Shift assortment to value
- Rapidly scale omni capabilities
- Build greater resilience in the supply chain

- Lower store operating expenses
- Reduce corporate costs
- Right size the organization for new levels of demand

1. Forecast New Demand

In deciding on store re-openings, retailers should account for both the evolving health conditions on the ground as well as the anticipated demand and profitability of a given location. Retailers can leverage public data on COVID-19 cases by market, combined with an analysis of historical performance, forecasted demand, and competitor actions. This analysis will enable retailers to quickly identify locations to reopen immediately, close permanently or monitor further.

Internal Data / Assumptions
- Historical store-level P&Ls
- New store operating costs related to COVID-19
- Lease tenure and concessions
- Forecasted shift in traffic and product mix
- Additional cost reductions

External Data and Inputs
- Customer traffic based on mobile phone data
- Public health data on COVID-19 infections, etc.
- Competitor activity
- Consumer spend data
- Location demographics

How does demand ramp after reopening?
Retailers need to rapidly reassess their in-store experience, assortment, and omni capabilities for the recovery path.

Assure a safe store environment before store reopening

Create a safe store for staff and adjust the in-store experience

Clear measures to protect employees and consumers in stores is necessary to regain consumer confidence and boost employee morale.

For employees, key steps will possibly include daily temperature checks and provision of both protective gear and sanitizer. To reassure customers, evaluate measures such as limiting number of shoppers at a time, alternate store hours for high risk shoppers, changing store layout and traffic flow to limit crowding, contactless pickup, and contactless POS payment.

Redesign the store labor model due to social distancing and reduced traffic

Significantly reduced traffic, and required safety precautions, will require a redesign of the current store labor model.

Retailers will need to redesign the timing and nature of tasks in-store to minimize human contact (e.g., restocking and backroom processes). Staffing matrices would have to be updated to align with highly reduced traffic patterns, as well as new patterns. Operating hours should also be redesigned in light of changing traffic and government mandates.

Engage customers and build recovery path capabilities

Engage customers and drive traffic

Ahead of, and during the reopening, retailers need to engage their best customers and drive trips through targeted promotions, loyalty programs offers and local social media campaigns. Marketing campaigns will need to be tailored and timed at a location level and need to continually reassure customers on safety measures while resuming promotional messages.

Shift the store assortment to value

Given the likely onset of a recession, retailers should pivot their merchandising strategy towards value. Tracking online ordering trends while stores are closed will provide a read on changing consumer demand. Reviewing previous recession behavior across Brand / Pack-size / Purchase frequency will further provide insight into the expected change of consumer behavior towards value purchases.

Build scale in omni capabilities and partnerships for last mile delivery

Most retailers have e-commerce capabilities that are sub-scale to meet the current surge in demand. While it may be difficult to increase spend during a recession, this is an area where retailers need to accelerate investment in order to remain relevant and viable in the post-COVID phase. Given the magnitude of shift to online, retailers need to fundamentally reassess their omni strategy and capabilities across digital marketing, site operations, fulfillment and delivery.

Build resilience in the supply chain

Retailers will need to ensure steady future supply by altering existing supplier relationships based on potential disruptions (e.g., setting up alternate and local suppliers, investment in select safety stock, increased future contracts / hedging, etc.). Retailers should also revisit the demand planning process with suppliers in anticipation of the store reopening period, increasing communication and coordinating accordingly.
Securing a lasting financial position will be critical for success in the new reality…

Beyond planning for re-opening stores and capturing shifting demand, retailers need to reduce cost and increase cash flow to absorb the inefficiencies of a stop/start business environment, a large drop in foot traffic and sales due to a recessionary environment, and make the necessary investments for the post-COVID-19 new reality.

3 Reduce the cost structure

Right Size the Organization
Ensure the organization is the right size and structure for new levels of demand. Assess additional compensation levers to reduce spend and maintain flexibility.

Lower Store Operating Expenses
Based on a store-by-store analysis, evaluate efficiency improvement opportunities, e.g. lease renegotiation and store labor model redesign.

Reduce Corporate Costs
Re-evaluate indirect procurement and other overhead to cut spend through immediate actions. Based on new merchandising strategy, undertake vendor renegotiations to reduce COGS and share costs.

4 Create a cash buffer against uncertainty

Cash flow planning
Develop cash flow scenarios and strategies to ensure flexibility over an extended Reopening period.

Working capital initiatives
Undertake actions to reduce inventory, increase terms and extend payables.

Financing and restructuring
Based on expected cash flow scenarios, renegotiate terms with lenders, issue debt, and consider asset sales.

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Why KPMG?

**KPMG is uniquely positioned to manage through this complexity with you**

We understand the unprecedented level of complexity involved in managing through the current situation. It will require the management and reconciliation of critical, simultaneous initiatives across functions. Additionally, it will require the rapid analysis of large amounts of market and internal data, combined with an in-depth understanding of the retail business.

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**End-to-end capabilities**

Deep subject matter expertise across all business areas—our offer represents 10+ specialty sub-functions within KPMG given the breadth of issues and depth of expertise needed.

**Working at deal speed**

Collegiate and collaborative KPMG culture allows us to integrate specialists immediately, obtain custom answers quickly and work efficiently in a remote environment.

**Integrated teaming**

“Roll up our sleeves” mindset allows us to help you flow findings through to your cash forecasting in real time. We do not release “position papers” for you to dissect and translate.

**Advanced analytics**

Recognized market-leading data and analytics. Dedicated teams of data scientists to perform complex data analytics across areas.

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**If you would like more information on how KPMG is poised to assist your organization to navigate through the recovery towards the new reality, please contact:**

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