



IMPACT
ANALYTICS

THE CRAZY FEW MONTHS OF RETAIL



I think it is fair to say that retail will never go to the way it was pre COVID 19. This crisis has created a larger divide between retailers that are consumer centric, digitally savvy and are agile in reacting to consumer needs. Within the retail landscape the fashion sector has been hit particularly hard. I have spent a lot of time thinking about the changes we will see in the fashion retail industry. A couple predictions/thoughts that I believe will be the most impactful are:

“Back to Basics”:

I believe that retailers will be forced to re-evaluate their business models. They will no longer be able to produce collections at the rate they have been. I see a move into more seasonless and “trendless” collections. This has happened in the past. After the great recession it became “uncool” to look rich. The article “How the Great Recession influenced a decade of design” stated that “there were rumors that the French luxury brand Hermes was letting self-conscious customers carry their purchases out in demure brown shopping bags, rather than the usual bright orange ones. The great depression had a similar effect on fashion. It was during the 1930’s that apparel manufacturers began to use cheaper methods and materials for producing clothing and thus began the error of ready to wear clothing. Fabrications such as rayon began to replace silk and zippers replace buttons.

Another factor that will push more basic looks is the WFH movement. For instance, a new survey of CFOs by Gartner revealed that more CFOs are looking to shift more of their previously on-site employees to remote workers on a permanent basis. A full 74% said they intend to move at least 5% of their on-site workforces to remote positions after the COVID-19 crisis resolves. What’s more, 17% of respondents to the survey said that 20% of those moved to work from home will remain as permanent remote workers after the crisis. This movement will have a big impact on what people are purchasing to wear during their work week.

Not only will people not want to flaunt money, but brands won’t be able to afford churning out new collections at their former rate. Retailers are dealing with inventory piling up due to store closures. The new products are competing with aggressively discounted aged inventory. Brands will not have the cash flow to invest in collections that cannot live on the floor for a longer period. There is a need to stretch out the full-price life cycle in order to create more margin friendly new product releases. Extending the

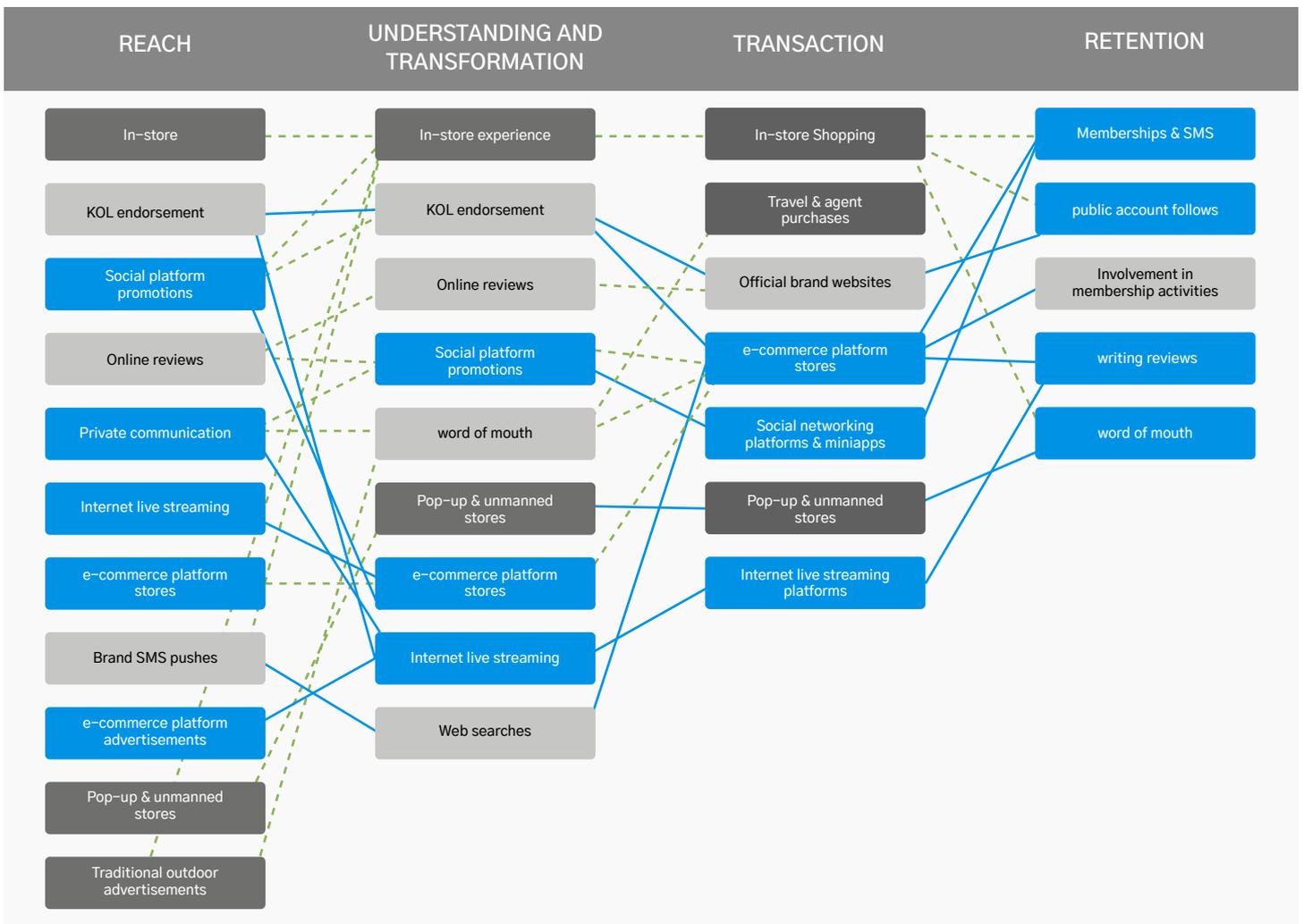
product life cycle also allows for a much smarter allocation strategy. Many merchandising teams are releasing 70%–80% of their initial buy out to stores due to minimum presentation levels. This strategy then traps the bulk of your buy out in stores and does not allow much flexibility to optimize the stores that our selling the best. By extending the lifecycle you can hold back more inventory because you have bought for a longer WOS which means you can fill minimum presentation will a smaller portion of the buy. This then allows for optimizing your inventory by location and size!!

Consolidation: Pre COVID-19 the retail industry was already divided between forward thinking, customer centric retailers and retailers that were doing the bare minimum to survive. COVID-19 only increased that divide which will lead to the acceleration of separating the retailers that will carry through this and come out stronger and those that will struggle to survive. Along that note will become the opportunity for investors to buy. Healthy, well capitalized retailers and private equity firms will have the ability to position themselves on the offensive and acquire those that are struggling for a down and dirty price. A report this month from McKinsey and fashion-trade publication Business of Fashion estimated 34% of publicly traded fashion companies in Europe and North America were showing signs of financial distress before the pandemic. With two or three months of store closures, that number could rise above 80%, it said. The report predicted in order to survive many companies will have to find aid, file for bankruptcy, or “become targets for stronger players or private equity firms.” Sadly, we have already seen companies like J. Crew declare bankruptcy and Lord and Taylor liquidating upon re-opening. This is just the beginning of companies with week balance sheets and struggling product strategies declaring bankruptcy and many of those companies eventually shutting down for good. Whether retailers are acquired or permanently shut down, this all leads to a consolidated industry.

CHANNELS NO LONGER EXIST:

The ecommerce business has exploded during COVID-19. Consumers who were once hesitant to shop online have broken down that barrier. Many people have had 6 plus weeks to become comfortable with shopping online vs. in store. Those that were once online adverse have now become seasoned purchasers. Most importantly is the concept that channels no longer exist. What I mean by this is that customers will expect to be able to merge the two experiences with a seamless experience

ountries such as South Korea, China have slowly begun a path to recovery. In a report released by Cushman and Wakefield on May 6 “China and Hong Kong consumers are emerging slowly and returning to work and to the shops, but footfall and retail sales are still down on the same time in 2019. In South Korea shopping centers (stores were never forced to close) are now very busy and reporting footfall at 85% of pre-COVID-19 and sales have recovered sharply over the first half of April. It is too soon to have any definitive sales or footfall statistics.” The sentiment has been that it is too early to tell precisely what has happened. However, China and Hong Kong have seen stores permanently shut down in mass marketed brands which is like the trend we are seeing in the US. In a report by Deloitte titled “Future Consumer” Series which looks at China’s omni transformation pre, during and post the pandemic they outline the consumer shopping journey during all three phases which is represented in their chart below.



- - - - - Consumer purchase journey during epidemic
- consumer purchase journey during & after epidemic
- Weaker touchpoints & Venues during & after epidemic
- Stronger touchpoints & Venues during & after epidemic

This chart shows that there is a significant shift from offline to online not only during the pandemic but after as well. Consumers are becoming much more comfortable shopping multiple channels. The pandemic forced consumers outside of their usual shopping channel and allowed them the time to be comfortable with new ones. During the pandemic digitally friendly retailers and brands have continued to push the consumer journey through augmented reality and live streaming.

Many retailers lack a true omni channel experience that allows the customer to shop in whatever way the desire. Some of the technologies that will continue to be pushed in retailers are ahead of the omni curve are: BOPIS, Curbside pick-up, augmented reality, and touch free shopping. As these technologies are pushed retailers will need to watch the affects on their business. For example, BOPIS has been something that has been pushed because of the ability to cover the cost through up-sell when the customer enters the stores to pick up their goods. What will happen with curbside pickup? How can retailers push up-selling in this environment? I can imagine that we will see many iterations of this experience as retailers try and maximize the experience for their customer put still push revenue adding initiatives

Retailers who will continue to push forward will continue to develop into a convenient and frictionless shopping experience for their customer. They will anticipate the consumer needs before she even realizes her expectation to shop in that manner.

I have been in the retail industry for about 20 years. The has been the most challenging environment I have seen. There have been many article headlines predicting “the end” of retail. Will the retail environment go back to pre-covid world, no. But this is not the end of retail, it is just the beginning of redefining the experience.



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