

EVALUESERVE

Sector Intelligence: Impact of Covid-19

Consumer, Retail & Hospitality

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Consumer, Retail & Hospitality: The What?

Global Activity and Critical Updates at a Glance

North America

- Companies such as Nike, Under Armour, Abercrombie, Nordstrom, Patagonia, and Apple, are closing their retail stores; more businesses are expected to follow suit in the coming weeks.^{1,2}
- Almost three-quarters of internet users in the US are likely to avoid shopping centers/malls if the outbreak worsens. With brick and mortar stores accounting for ~85% of retail sales in the US³, deteriorating consumer sentiments will have a negative impact on the retail industry.
- Between Jan 27 and Feb 23, when Covid-19 began its rapid spread outside Asia, US-based retailers with both online and offline channels experienced a 52% revenue growth from online sales.⁴
- Consumer packaged goods (CPG) players are witnessing resilient demand for specific products, such as hand sanitizers, non-perishable foods (canned or frozen), and cleaning supplies. However, they are facing issues such as shortage in supply of essential items due to panic buying and significant supply chain disruptions.



Europe

- On March 9, 2020, Italy was put under complete lockdown, shutting down factories and businesses in the \$107.9 billion Italian fashion and textile industry. Even before the shutdown, BCG and Bernstein had estimated that the industry will lose up to \$45 billion in sales this year.⁵
- Tourist inflow into Europe has plummeted, causing restaurants, nightclubs, and hotels to close down. Due to the situation, the EU tourism industry is losing almost \$1.1 billion a month.⁶
- The retail industry in the UK, is facing severe supply disruption, with 24% of retailers expecting a permanent change in their business.⁷



APAC

- All sectors of the Chinese economy have been profoundly hit. In Jan–Feb 2020, retail sales in China decreased by 20.5%, compared with 2019.⁸ It is estimated that Chinese tourism could lose \$428 billion (RMB3 trillion) in 2020, 10x the estimated post-SARS loss.⁹
- Adidas expects Q1 2020 sales to drop by up to \$1.14 billion, while Starbucks expects a revenue loss of \$400–430 million in China in 2020.^{10, 11} Yum Brands, McDonalds, Luckin Coffee, Nike, Burberry, and Apple are among many retailers that have temporarily shut down their store operations in China and the surrounding regions.
- Revenue from travel retail, an important focus for large personal care brands, such as Estée Lauder, L'Oréal, and Shiseido, is expected to take a hit of 19.1% in the APAC region. GlobalData has cut its APAC duty-free sales forecast from \$43.4 billion to \$35.2 billion for 2020.¹²



In 2019, consumer spending accounted for almost 70% of US GDP and made up about 58% of China's GDP growth. With both countries being at the epicenter of this staggered crisis, consumer spending is likely to stay low through 2020. Consumer behavior will undergo a dramatic shift and firms will need to adapt to the changing environment while ensuring stricter compliance of better health and safety conditions. The Covid-19 pandemic is likely to severely impact consumer spending behavior and patterns across the globe. Additionally, social distancing and work from home advisory by governments is forcing consumers to prioritize consumer staples and household hygiene products, and significantly de-prioritize spending on discretionary items (both online and offline).

Analyst's Note

Sources: 1) [Yahoo Finance](#), Mar 2020 2) [CNBC](#), Mar 2020 3) [eMarketer](#), Mar 2020 4) [Yahoo](#), Mar 2020 5) [Business Insider](#), Mar 2020 6) [WSJ](#), Mar 2020 7) [Guardian](#), Mar 2020 8) [CNN](#), Mar 2020 9) [PhocusWire](#), Mar 2020 10) [CNBC](#), Mar 2020 11) [CNBC](#), Mar 2020 12) [RetailDive](#), Mar 2020



Consumer, Retail & Hospitality: The So-What?

Near-Term Risk Outlook, Risk Mitigation and Opportunities



		Level of risk and opportunity	Potential Disruptions	Risk Assessment	Risk Mitigation
>>> Consumer Staples >>> Retail >>> Hospitality	Near-term risk	Outlook			
	High	Neutral	<ul style="list-style-type: none"> Factory shutdowns Supply chain disruptions 	<ul style="list-style-type: none"> Price gouging and panic buying is putting significant pressure on companies that manufacture hygiene-related products Dependency on routes across APAC will delay product availability 	<ul style="list-style-type: none"> Exploring multiple supply chain routes Improving direct-to-consumer business model and increasing online engagement with consumers
	High	Negative	<ul style="list-style-type: none"> Store closures Supply chain disruptions Decline in store traffic 	<ul style="list-style-type: none"> Lack of workers will limit operations across the industry Restaurant and bar closures could continue till social distancing and the pandemic status are active 	<ul style="list-style-type: none"> Compensate for reduced in-store foot traffic by accelerating online fulfillment services and adopting contactless delivery Partnership with delivery platforms like Instacart, GrubHub, Postmates Use of cashier less, no-checkout-line technology such as Amazon Go Use of unmanned delivery (Drone) in approved locations
	Severe	Negative	<ul style="list-style-type: none"> Low occupancy levels in hotels Cancellation of events across the globe Closure of popular entertainment venues 	<ul style="list-style-type: none"> One of the worst hit sectors Hotels and venues in high-risk zones may need to shut operations for an extended period (Q3 2020) 	<ul style="list-style-type: none"> Expected revival in Q4. Companies could use the time to improve operations internally, focus on alternate revenue sources, and optimize cost to deal with the crisis



Consumer, Retail & Hospitality: The Next-What?

Long-term Sector Implications for Professional Services

Consumer Staples

Providing supply chain services opportunities to professional firms

- Supply chain diversification and production hike will become critical, as the volatile nature of the Covid-19 outbreak has led to a significant increase in the purchase of non-perishable food items and household sanitary products. CPG players are struggling to keep up with demand, which is expected to continue increasing in the coming months.

Tracking and controlling price gouging

- There is panic buying and hoarding of crucial products, such as hand sanitizers and disinfecting sanitary products, which are either out of stock or are being sold online at a significant premium. Professional services firms can help these players by providing them with tools that can track instances of price gouging online.

Retail

Opportunity for technology enablement and optimization services

- Companies such as Amazon, Walmart, and Target have been involved in the e-commerce market for a number of years, and have a head start in the sector. Smaller players or digitally native companies may form partnerships with logistics players or with larger counterparts to maintain revenue cycles.

Reduced dependence on physical labor vs emerging technologies

- Globally, a stay-at-home approach and social distancing are leading to labor shortage. Quick service restaurants and convenience and grocery stores could benefit from employing cashier-less technologies. These are already being implemented by stores like Amazon GO (uses shelf sensor technology) to track products that need replenishing and to predict future demand.¹³ Professional services firms can help clients decide which technologies are best suited for their operations and where & when to introduce them.

Hospitality

Workforce reallocation and internal process improvement

- The sector is faced with record low levels of occupancy after several regions, including North America and Europe, have closed their borders to foreigners, and advised citizens to stay at home. These steps have also resulted in the cancellation or postponement of conferences, sporting and entertainment events, etc.
- Companies may need to reallocate their available staff to reduce expenses. For example, more than 40 restaurants, hotels, and cinema chains in China optimized their workforce by sharing their employees with Hema, a supermarket chain owned by Alibaba.¹⁴ The sector is expected to revive in Q4 2020.¹⁵
- Sector players could opt for automation and process improvements for the eventual turnaround. Professional services firms can help with automation of various tasks related to operations, and also help build & track various company financial models based on the fluid situation.

To Watch Out For

The outbreak still represents an uncharted territory for all industries. Professional services firms can help them navigate through these changes and provide insights on how and when to act. Consumer Goods and Retail sectors face different challenges because of the Coronavirus outbreak in near term. In the aftermath of the crisis, Consumer Goods firms will need to make sure that production/output levels resume normalcy amid disruption in supply chains and human capital. In addition, retail firms that were laggards in adopting digital transformation initiatives prior to the crisis, may find it difficult to compete with firms that survived the crisis due to maturity of their digital models. Key trends to watch out for : Increase in labor demand by online retailers; Significant change in spending on discretionary items; Increase in consumer engagement through Over-the-top (OTT) media services; Emergence of multiple contactless delivery methods.

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