

Will Retailers Bounce Back from the Coronavirus Pandemic?

ARTICLE |

Rimma Kats

Excluding grocery stores and drugstores—which remain open—practically all other brick-and-mortar retailers have seen a seismic drop in foot traffic before temporarily closing for the foreseeable future as the coronavirus pandemic continues to spread in the US.

“It is going to be a difficult period for retailers that generate a lot of their revenue from physical locations,” said Stacey Thomson, vice president of eBusiness and ecommerce at agile agency Scrum50.

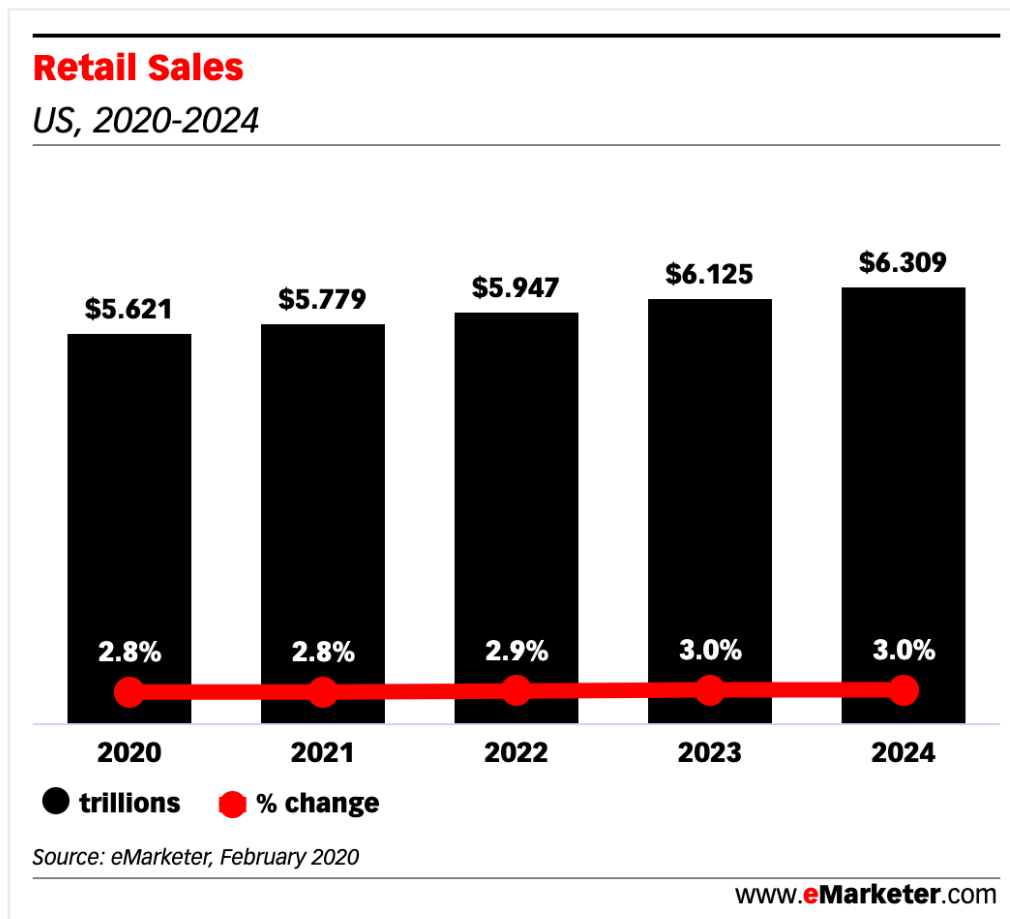
“Those that have a strong ecommerce presence will do their best to shift as much foot traffic as possible to their website. It seems unrealistic to expect retailers to make up for all of their in-store revenue through ecommerce sales, so a lot of retailers will take a hit,” she said. “How big of a hit will depend on how long the crisis lasts.”

According to James Thomson, partner at Buy Box Experts, who previously served as business head of Amazon Services, it depends on how long this situation continues. “If foot traffic to brick-and-mortar retailers remains nonexistent for more than four to six weeks, retailers will have a hard time remaining financially viable, and consumer shopping preferences may well have changed enough that there is a

'new norm' by which more consumers do more shopping online going forward," he said.

From an overall payments volume perspective, it's too early for any retailer or technology company to discuss the impact of quarantines and social distancing measures, according to Jennifer Sherman, senior vice president of product at NMI. "That said, we find that March is often a strong month for retail transactions as we transition into spring and see upticks in entertainment and fashion transactions," she said. "So, given the strong performance this year has had so far, we hope that there can be some momentum as we head into an uncertain future."

According to our estimates, which were published before the outbreak and subsequent store closures, US retail sales are expected to climb 2.8% this year to \$5.621 trillion.



We likely won't start to see the effects on retail sales until the US Census releases its March data later next month, and we also don't know how long the pandemic will last.

"Right now, it's still hard to say how big of an impact this will have on US retail sales," said eMarketer senior forecasting analyst Cindy Liu. "With millions of people forced to stay home and many retailers temporarily closing shops, it's safe to assume that sales will likely take a hit starting in March and last however long these social distancing measures remain in place."

This may be an opportunity for the retailers that have lagged in the ecommerce space. This could accelerate digital transformation and get retailers to omnichannel faster. Out of necessity, they may even explore showrooming and downsizing retail footprints as shoppers develop new habits.

"Everyone is navigating new territory," Scrum 50's Thomson said. "Retailers can test and learn new ways to sell inventory and quickly meet new demands. It's a forgiving time to take some risks."

She added that many of her clients have seen a spike in ecommerce sales. "Part of this is because existing ecommerce customers are simply purchasing more," she said. "But there are also customers who, while not new to ecommerce, are purchasing products for the first time on Amazon or Walmart.com."

"On Amazon, our clients in household goods and fitness are selling more than three times as much as usual, while others in apparel have seen steep drops in sales," Buy Box Experts' Thomson said. "Overall, sales are up at least 30% higher than what we would expect for this time of year."

"Given Amazon's recent announcement on limiting Fulfillment by Amazon [FBA] inventory, I suspect the issue behind this decision is ... Amazon having to manage far more FBA shipments than expected for this time of year, and hence not being adequately able to achieve its Prime delivery promise on those orders," he said. "Sharp, unexpected growth in demand for Amazon is resulting in tough choices of how to

manage the supply of in-bound products and available last-mile delivery capacity.”

This may result in new categories and product line extensions.

“Companies like Clorox have an opportunity to create new products post-virus,” Scrum 50’s Thomson said. “Personal gloves, special doorknob and light switch wipes, or playground and gym equipment sprays.”

“Like Amazon’s Launchpad program, now is the time for brands to test small batches of products and sell online,” she said. “They can begin to tweak as they get real-time feedback and reviews. Ten years ago, special wipes for screens, portable sanitizing sprays and keychain sanitizers didn’t exist. Today, every kid has a bottle of sanitizer hanging off their backpack. In 2013, Lifebuoy created a soap line for kids that changed color after 10 seconds of washing. We anticipate innovation like this to ramp up quickly among personal care brands.”