

Taking stock: How retailers are preparing for the post Covid-19 era

De-risking strategies include inventory changes, budget reallocations, short-term planning

FORUM GANDHI

Mumbai, April 20

As uncertainty becomes the norm for the modern retail industry across geographies, retailers have started planning for the post Covid-19 era.

While supply chains have been disrupted, and consumer demand has diminished alarmingly, industry players have effected significant changes to de-risk themselves — such as revisiting the inventory assortments as consumers shift to buying essential items; adopting a short-term, three-month business model; restructuring budget reallocations; going omnichannel with more focus on online sales, and postponing expansion plans.

Inventory rejig

According to an online survey conducted by Nielsen India across 23 cities earlier this month, urban Indian consumers are likely to cut discretionary spending in the coming months. Sameer Shukla, West Market Leader-South Asia, Nielsen Global Connect, said, “Consumers have become cautious due to the Covid-19 pandemic and will be bearish on discretionary spends once normalcy is

restored in the coming months.”

Samir Misra, COO, V-Mart, said consumer sentiments would be to “live with less” and deriving more value on every penny spent. “Brands that can respond with agility to new realities, new emerging trends, will gain traction faster,” said Misra.

A source at Future Group said even within the essentials, only basic staples are being sold. The value-added products contribute to a higher margin than the staples. “We work on the least margin models for staples that don’t contribute more than 2-4 per cent,” the source explained.

According to Kumar Rajagopalan, CEO of the Retail Association of India (RAI), at present, consumers are buying pure low-margin items and hence the reduced sales give a margin of around 12 per cent, against the normal 21 per cent.

As a result, even stores selling essential goods, which have been allowed to remain open during the lockdown, are suffering losses as they aren’t allowed to sell other general merchandise, which would otherwise bring them higher



Turning cautious Urban Indian consumers are likely to cut discretionary spending in the coming months, says a survey

margins. For DS Group’s retail arm Le Marche, which is a premium supermarket based out of NCR, some sections like live salad and bakery, along with liquor sections, are not operational due to regulatory orders.

For Future Group’s Big Bazaar and Osia hyper retail, income from apparel, home and handicraft sections, which contributed nearly 40 per cent of the business earlier, has gone down to zero.

Cutting costs

Slimmer margins are making it difficult for retail players to continue with the current cost levels. Many, such as More Retail, have requested *force majeure* of mall rent at unoperational stores.

Although More Retail, V-Mart and Le Marche are paying complete salaries to their

employees, all of them are working on three-month business plans to cut discretionary costs. Along with this, marketing budgets are being slashed by 90 per cent, with the remaining 10 per cent to be spent on digital platforms. Players like V-Mart are not planning to open new stores in Q1.

Anuj Puri, Chairman, ANAROCK Property Consultants, said: “Space optimisation for cost rationalisation is being considered. An increasing focus on online presence, transactions, adaptation to technology, is also on the cards for the retail industry.”

Supply-chain issues

Supply chain disruption has been one of the biggest issues for retail players. “About one-third of our top suppliers have still not been

able to supply products to us in the last two weeks,” said Mohit Kampani, CEO of More Retail. Some retail players have started running their own trucks to transport goods from warehouses to the stores.

“A key learning for us is multi-sourcing, which reduces reliance on any one supplier, and is also a considerable inventory strategy against supply chain disruption. We also learned how to stabilise the supply chain and anticipate customer behaviour to operate in a scenario like this,” said Albinder Dhindsa, CEO and Co-Founder, Grofers

The new normal

RAI has forecast that it may take 9-12 months to recover from the aftermath of the coronavirus pandemic.

“We need to be frugal with our costs, hence we need added suppliers, more safety stock, localised merchandise, compared to more reliance on imported products or one supplier,” said Kampani.

India comprises over 15 lakh modern retail stores generating over ₹4.74 lakh crore and employing more than 60 lakh people. Together, they contribute to over 40 per cent of India’s consumption and 10 per cent to India’s GDP.