

Retail Practice

What food retailers should do during the coronavirus crisis

The food-retail industry plays a critical role in these uncertain times. Here are six actions food retailers should take to help their communities, their employees, and their business.

by Bill Aull, Dymfke Kuijpers, Alex Sawaya, and Rickard Vallöf



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As of this writing (March 19, 2020), the epidemiological numbers of COVID-19, caused by the coronavirus, are becoming outdated by the hour. While events are rapidly evolving, a few things are becoming clear:

- The disease is less fatal than SARS, but the transmission rate is one and a half to two times higher than the flu's, with various factors driving the ultimate local fatality rates.
- The virus is located in five major transmission complexes that are in different stages of maturity—with “community spread” getting worse in several of them.
- The impact is very different for every retailer, depending on country, category, and customer mix.

According to McKinsey's March 16 briefing note, two scenarios are most likely: a delayed recovery or a prolonged contraction. Regardless of which scenario plays out, food retailers will need to think ahead and be prepared to act quickly. We are continuously updating our views and keeping a close eye on what retailers are doing, and we plan to share our insights regularly. Clearly, the top priority is saving lives; managing the business is a distant second.

This article recommends six actions that food retailers can take to continue doing what they do best—serve as reliable sources of food and essential items for people across communities worldwide—while also staying calm and executing rigorously in these uncertain times. The first four actions are urgent; the last two are more focused on the long term and thus will likely require the attention of a distinct set of leaders with a different mandate to ensure sufficient focus.

1. Protect your employees and customers

For headquarters staff, the challenges presented by this crisis—working remotely, defining contingency

plans, and maintaining morale—are difficult but manageable, given ample technological solutions. The real heroes are in the field: the cashiers, the shelf stockers, the drivers, the warehouse workers. Food retailers must step up frontline hygiene and limit human contact as much as possible, using as much technology as possible. Several retailers are encouraging self-checkout, minimizing cash payments, stocking shelves only before or after store hours, and having drivers drop off deliveries at doorsteps rather than handing them to customers or going inside homes. Some franchisees have taken extra precautions, such as putting plastic tents around cashiers.

Beyond workplace and store safety, it is crucial to create an environment that fosters social distancing or isolation to protect the vulnerable. We have seen retailers implement paid sick leave for affected employees, free testing, and stay-at-home policies for employees who have colds or are feeling ill. Food retailers must also prepare for worst-case scenarios by, for instance, proactively creating backup plans for the most crucial staff, working in A/B teams, and moving quickly to hire additional flexible capacity. We've seen that the latter often comes at a premium (for example, Amazon is raising wages for hourly workers).

Several retailers have shown positive examples of employee and customer care. Chinese e-commerce giant Alibaba is sending coronavirus-testing kits and protective equipment to other countries. Grocery chains, including Ahold Delhaize and Lidl, are setting aside certain store hours to serve the elderly exclusively (to lessen elderly customers' risk of infection). Other retailers are donating food and essential items to the needy in their communities or offering free meals to healthcare workers and first responders.

2. Secure business continuity

Food retailers must keep the lights on: stores and distribution centers must stay open, employees must continue to work, home deliveries must be made, and customers must be served. This has

proven challenging, especially when schools and childcare facilities are closed. Equally challenging is meeting the enormous (700 percent or more) spikes in demand on e-commerce sites—with the associated struggles of getting enough delivery drivers, giving customers accurate delivery time slots, and keeping the IT systems running.

Food retailers must take the time to listen to customers' most acute needs, and then use those insights to both jury-rig solutions and define new ways to serve customers for the short and medium terms. For example, some retailers have had to flex space allocation radically to accommodate surges in demand (such as dedicating more store space to toilet paper and hand sanitizer); others have switched selected stores entirely to click-and-collect formats to protect both customers and employees. Companies must work with local governments, suppliers, employees, and service providers to develop a set of minimum norms for operating during the crisis. Several retailers have collaborated with local authorities to keep daycare centers open for "essential workers," which food-supply-chain employees certainly are.

3. Get a granular view of the local reality

The pace of recovery from COVID-19—and, consequently, the patterns in consumer demand—vary across countries and categories. Some retailers are facing spikes in demand of up to 800 percent

in over-the-counter cold and flu medicines and between 25 and 50 percent in food items. Within food categories, we've seen consumers in some areas buying fruit over beer—but, after a few days, returning to beer and snacks as they find themselves having to stay home for extended periods of time. Certain store formats—convenience stores, for example—are seeing steep declines in sales, while others (such as the aforementioned e-commerce players experiencing a 700 percent increase in demand) are unable to fulfill customer orders.

Continually staying abreast of what is happening at a detailed, local level will enable food retailers to act appropriately and act fast. Many retailers are setting up some form of a virtual nerve center to control, plan, stabilize stakeholder management, address primary threats rapidly, and mitigate threats' root causes. Financial stress testing and a cash control tower are critical in any crisis.

As food retailers, you are the backbone of the food supply chain, and most of your companies are cash rich—which means that spotting up-front cash issues outside your own company is crucial. Your ability to operate is determined by the weakest link in your supply chain. Some retailers are offering shorter payment terms to keep their suppliers afloat. Meanwhile, other retailers—such as convenience-store chains, apparel retailers, and specialty retailers experiencing forced store closures—are trying to delay payments to manage their own cash. Granularity matters.

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4. Simultaneously manage demand and supply

The crisis has changed what an average grocery basket looks like: the exhibit shows the shifts in demand patterns in Italy. The supply chain is struggling to keep up. To restore the balance, we believe food retailers must simultaneously manage their commercial calendars and supply chains.

To be clear, this is not just a matter of paying close attention to critical steps in the supply chain—such as providing supplier credits, finding alternative sources of supply, pulling in extra shifts, and safeguarding in-store replenishment, warehouses, truck drivers, and last-mile delivery. It is not just a matter of paying extra wages to secure flexible capacity to cover the peaks. These actions are, of course, important to ensure that retailers can fulfill peak demand. But it's just as important to manage consumer demand proactively.

On this front, we have seen both positive actions (CEOs and governments advising consumers to avoid panic buying and hoarding) and abhorrent behavior (online sellers charging exorbitant prices for hand sanitizer and thermometers). We suggest taking a “cleansheet” look at your marketing and promotional calendar and making adjustments, such as reducing promotion intensity in select categories, to smooth out unexpected peaks in the supply chain—not just today but also as a regular practice going forward.

5. Transform your business model to ensure that it is tech enabled and future proof

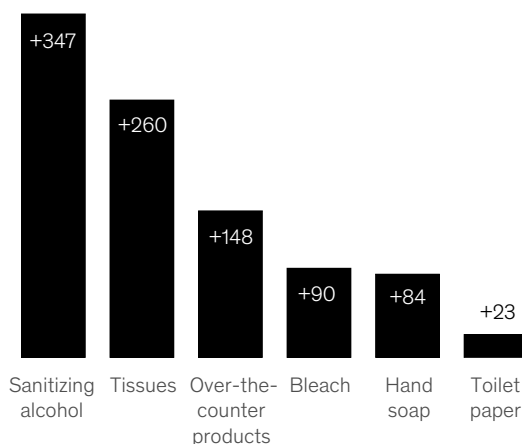
The crisis has accelerated many societal trends that were already under way: remote working, online shopping, tech-enabled retail, and localized supply chains. Even as food retailers address today's short-term challenges, they should

Exhibit

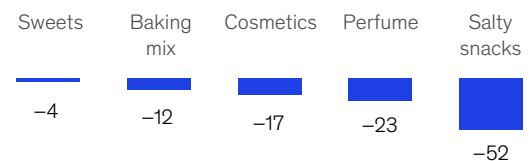
In Italy, demand patterns shifted dramatically in the period before lockdown.

Shift in purchasing behavior in Italy,¹ % change

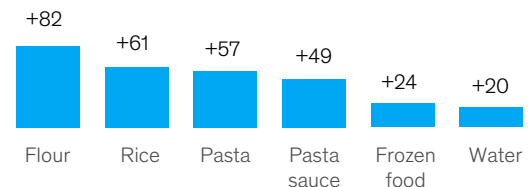
Cleaning and safety products



Discretionary products



Raw materials and long-shelf-life products



¹Data from day of 1st “red zone” declaration (Feb 23, 2020) to day before full lockdown (Mar 11, 2020) compared with data from same period in 2019.

Source: GfK survey, March 2020, gfk.com

take the time to rethink their business models to become more efficient—and, therefore, less exposed to shocks:

- **Stores.** Can you make your store model cashless or virtually cashless? Can you replace the cashier-based model with a seamless no-checkout model? Are you using data to measure on-shelf availability in real time? Are you automating replenishment?
- **Supply chain.** Are you embracing technology sufficiently in warehousing and transportation to reduce the burden on labor? Have you adopted machine learning in your forecasting so that you can spot abnormalities fast and adjust immediately?
- **Merchandising.** Are your merchants equipped with the technological tools to run their categories “customer back” and remotely? Have you diversified sourcing sufficiently to derisk future shocks? Are there reasons for you to pursue more vertical integration or more strategic partnerships? In light of the latest consumer trends, are you striking the right balance between local and international partnerships? Should you expand your position in private labels in the face of potential GDP adversity and customers’ quest for value? Or, put another way, should you introduce more private labels with a diversified but primarily local supplier mix?
- **E-commerce.** Can you accelerate investments in a seamless online-to-offline experience and proactively shift spending to your online channel, in a model that serves the customer better and is sustainable over the long term? Do you have a scalable technological backbone and delivery network to flex up and down as needed?
- **Head office.** Can you transform your head office into a flexible, remote-working team supported by tech and data? Are your systems

able to handle the increased load and cybersecurity issues that come with distributed remote work?

6. Boldly reshape your ecosystem, including through M&A

Experience teaches us that crises typically trigger new avenues for growth and M&A. What moves can you make now to serve your customers, your employees, and your stakeholders better for the longer term? Which growth avenues could you pursue?

As highlighted by the more than 150 profit warnings in recent days, many companies are struggling. Very few of them are food retailers. Are there companies you could potentially partner with to keep them afloat while providing yourself with an opportunity to grow into adjacencies (such as food service)? Is there room to expand your footprint and find new franchise models in the aftermath of the crisis? Are there moves along the value chain and ecosystem, such as vertical integration, services, or payments, that have become more attractive? What partnerships or acquisitions, such as tech companies and tech talent, could you pursue now that were perhaps more difficult before? The answers will be specific to your country, your categories, and your customer positioning—but the opportunity to reset the strategic game board is substantial, particularly for companies that are cash rich and growth poor.

We have full confidence in food retailers’ ability to handle this crisis. In every country, you—as leaders in the food industry—are crucial to the health and well-being of the population, both today and in the future. The actions we’ve outlined here can help you and the other leaders in your organization navigate this current crisis, as well as build and strengthen your business for the longer term.

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