

NAVIGATING COVID 19 | RETAIL SECTOR

It was the best of times and it was the worst of times - this is how the US\$ 3,500 billion retail sector in India will remember COVID 19. This dichotomy is evident when we view a section of the retailers who have closed down (*either temporarily or permanently*) as a consequence of regulatory directions and lockdown measures impacting foot-traffic; and those retailers (*such as grocery stores, pharmacies, hardware stores and big-box retailers*) who are witnessing an unprecedented influx of traffic to their stores.

The fact that the retail sector has contributed ~10% of India's GDP and over 8% of the country's overall employment, further accentuates the problem statement - is this time about surviving or thriving, or survival to thrive in the medium to long term? Clearly, we seem to be on a road to everywhere.

The 10 commandments

This point-in-time note given below provides perspectives from MGC Global Risk Advisory LLP on **10 significant aspects that can enable the retail sector in India, respond effectively** to the current and emerging situation

Focus of risk assessment

The best measures of your risk exposure emanate from the following.

- Your ability to deploy technology to re-invent your business (*technology will drive the next phase of evolution of the industry*);
- Consumer sentiment (*current and as the new normal unfolds*);
- Price elasticity (*patterns of discretionary consumer spending on nonessential retail such as other non-food, apparel, fashion, and luxury products*);
- Supply chain sustainability (*with several suppliers halting production*);
- Business sustainability (*operationally and financially*); &
- The robustness of your business model (*your ability to achieve a higher level of e-commerce sales will mitigate the risk of store closures*).

However, we recommend that you update your risk assessment at an enterprise level.

Strategy

Re-assess your strategy to shift to online, digital and omni channels in the near to medium term. Prepare for monumental shifts in merchandising with customers and executing transactions. It will take time for the channel shift within AF&L (*i.e. apparel, fashion, and luxury*) brands to come close to making up for the lost brick-and-mortar sales. Jewelers face an unprecedented muted demand with maintenance of social distancing norms (*in a vertical where customer interaction has traditionally been imperative to drive sales*).



Monish G Chatrath,
Managing Partner
MGC Global Risk Advisory LLP

Strategy (cont...)

Shift focus to value for money. As the lockdown measures ease, consumers will demand value for money across retail sectors. Retailers with global operations should identify local vendors to mitigate the risk of supply chain disruption. Identify products that are likely to be most at risk of stockpiling and supply chain constraints; to reassess their pricing, promotion/s and logistics flow.

Marketing

Build customer loyalty for the post lockdown retail environment. Ensure a robust online presence and re-engage by connecting with customers through social media and direct-to-consumer email marketing. Launch programs with loyalty benefits to followers, who share inspirational posts about their experience with your outlets.

Address and market aspects that address consumer anxiety about infection while enhancing aspects that address consumer experience. You will need to be relevant to be successful.

Research, development & information technology

Enhance automation (*including touchless automation*) in stores, warehouses and corporate locations.

The momentum for digital-adoption is here to stay. Assess the capability of your IT systems and working practices to ensure security and confidentiality; adherence with privacy norms (*such as GDPR*); enhance the processing integrity of information and data; and optimize availability of your platforms, hardware and software. Cyber-attacks and data theft are on the rise.

Operations

Maximize revenue by increasing focus on improving health, healthy lifestyle and nutrition. Build the pipeline for talent and headcount (*where there has been reduced*) to support the ramp up of business operations as stores re-open.

Assess the capacity and ability of distribution centers and warehouses (*some of which have undergone stress in terms of overload and burnout from the excessive demand of essentials during the pandemic*). You must prepare for demand fulfilment

Supply chain

Several parts of the supply chain have been shattered to pieces during the complete lockdown. The variations in the magnitude and timing of supply chain disruptions across geographies and interrelated/feeder subsectors have been considerable.

Assess risks relating to continuity, longevity and capability of vendors, identify exposures (*direct & indirect*) and create contingency plans.

Standard operating procedures ('SOP') s

Re engineer your SOPs to ensure that these are the state of the art, incorporate enhanced digitization and complete compliances with new regulatory directives and guidelines (*including business resumption for premises once the lockdown measures ease*).

Finance

Taking a close look at your current and predicted liquidity profile and assess changes in your working capital dynamics (*including short term cash forecasts*).

Evaluate the impact of COVID-19 in preparing and reporting your financial statements for the last year end and projections. Specific aspects relating to financial reporting include inventory measurement, impairment of non-financial assets, provisions, contingent liabilities and contingent assets, going concern assessment for self, customers & vendors, income taxes, borrowing costs, post balance sheet events & interim reporting.

Human resources

Preventive measures in the context of employee health and safety are imperative.

Inventory

Update your inventory management parameters (*including stocking levels*). Hypermarkets (*who have faced the brunt of the shutdown as a consequence of most of them being situated in malls*) should focus on identifying stocks (*in categories like apparel*) that need to be liquidated through discounts, standalone stores merchandising on food and FMCG packaged products with a shorter shelf-life (*such as juices and other beverages*) need to identify expired stocks for write off. Discount formats will benefit from identifying and sourcing inventory at throwaway rate – your shoppers are more likely to be drawn by prices and not the latest fashion or trend in the short to medium term.

Disclaimer

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. It is not meant to be considered a substitute for professional advice in any manner and no one should act on such information without an appropriate and thorough examination of situations that would be specific to the reader; and without due professional/expert assistance.

MGC Global Risk Advisory LLP

Our Firm was established in September of 2015, with the vision to be the best providers of risk advisory services wherever it operates. Effective May 08, 2019, MGC Global Risk Advisory LLP became a direct and independent member firm of the US\$ 4 billion, Atlanta headquartered Allinial Global (*formerly PKF North America*); and changed its name to MGC Global Risk Advisory LLP.

MGC Global Risk Advisory LLP specializes in providing risk advisory solutions to its clients in the areas of enterprise wide risk management, control assessments, internal audits, fraud investigations, process re-engineering, governance frameworks, IT risks, GDPR readiness, cyber assessments, CxO transformation, board evaluations and research. It currently has over 100 dedicated risk advisory specialists in its own offices in Bengaluru, Mumbai and the NCR and arrangements with our associates to service its clients in all major cities in the country.

Our Firm has access to the expertise of over 28,373 professionals and over 4,000 partners in 592 offices across the globe as a member firm of Allinial Global. Amongst numerous achievements and accolades secured, the Firm has been recognized as one of the '10 most promising GRC consultants in India' in 2017, the 'Company of the month' in January 2018 and the 'Company of the year' in 2018 as well as in 2019 (*both, in the category of risk advisory services*).

In case you would like to discuss the above or any other aspect relating to risk management and business transformation, **please write to us at contactus@mgcglobal.co.in**.

